



A STUDY OF INDIAN ECONOMICS)

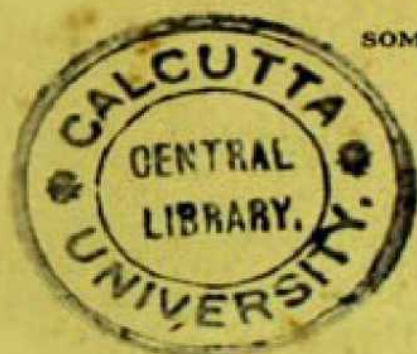
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पितृदेवेर श्रीचरणे

पितृदेवेर श्रीचरणेषु

मान्देवेर श्रीचरणे

श्रीचरणे

मालिख कावकामलि

PREFACE TO THE FIRST EDITION

THIS book is intended to be an introductory manual for those who wish to make a serious study of Indian Economics. It has been written from the standpoint of the scientific inquirer, and is, the author believes, free from political bias. An attempt has been made throughout the book to present the different sides to every question in the fairest possible manner. The author has deliberately refrained from discussing some important practical problems which he intends to deal with in a second volume.

The author has tried to avail himself of the best available sources of information in respect of the various subjects dealt with in the book. He takes this opportunity to express his gratitude to the authors, editors, or publishers of all publications from which he has gathered any information. He is especially grateful to Mr. J. M. Keynes of Cambridge (afterwards Lord Keynes), for many valuable suggestions relating to Indian Currency.

The book is being published in a hurry, and some typographical errors will perhaps be found in it, for which the author craves the indulgence of the reader.

LONDON, *June*, 1911.

PREFACE TO THE SIXTH EDITION

The book has been enlarged, re-written and brought up to date for the Sixth Edition. The best thanks of the author are due to Dr. Saroj Kumar Basu, Dr. Nripendranarayan Das, Sri Probodh Chandra Ghosh, Sri Bimalendu Dhar and Sri Santosh Kumar Chatterjee for the very valuable assistance rendered by them in the preparation of this Edition and to Professor Debendranath Banerjee, Sri Mihir Kumar Sen, Sri Satkari Mitra, Sri Binayendranath Banerjee and Sri Sunilchandra Khasnavis for helping him in seeing the book through the press.

January 1, 1951.

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PART I
MAINLY
ANALYTICAL AND DESCRIPTIVE



CHAPTER I

INTRODUCTORY

THE subject of Indian Economics presents many difficulties to the student which it may be useful to note at the outset.

Obstacles
to the
study of
the
subject:

The first and the most serious difficulty is to be found in regard to the applicability of the principles of General Economics to Indian conditions. There was a time when such principles were believed to be of universal application, and the truths which Economics inculcates were regarded as absolute truths, like those of the physical sciences. Some economists, however, early realised the limitations of the science. Bagehot went so far as to declare that the doctrines of English Political Economy had little validity outside England. He very properly called the English system of Economics "the science of business, such as business is in large productive and trading communities."¹

Applicability of
economic
principles.

Economics, as it is taught in the West, is based on a number of assumptions, conscious or unconscious. When we examine these assumptions, we find that many of them are valid in India only to a very limited extent.² This being so, it would be wrong to

¹ Bagehot, *Postulates of English Political Economy*, p 7.

² M. G. Ranade, in his *Essays in Indian Economics*, summed up the position in India in regard to the ordinary economic assumptions in the following words: "With us an average individual man is, to a large extent, the very antipodes of the economical man. The Family and the Caste are more powerful than the individual in determining his position in life. Self-interest in the shape of desire of wealth is not absent, but it is not the only nor principal motor. The pursuit of wealth is not the only ideal aimed at. There is neither the desire nor the aptitude for free and unlimited Competition except within certain predetermined grooves or groups. Custom and State regulation are far more powerful than Competition, and Status more decisive than Contract. Neither Capital nor Labour is mobile, and enterprising and intelligent enough to shift from place to place. Wages and profits are fixed, and not elastic and responsive to change of circumstances. Population follows its own law, being cut down by disease and famine, while production is almost stationary, the bumper harvest of one year being needed to provide against the uncertainties of alternate bad seasons. In a society so constituted, the tendencies assumed as axiomatic, are not only inoperative, but are actually deflected from their proper direction. You might as well talk of the tendency of mountains to be washed away into the sea, or of the valleys to fill up, or of the

import wholesale into India the economic conceptions of the West, and to apply them without modification or limitation to Indian conditions. But although the conclusions of General Economics may not, in all cases, be quite valid in India, the economic tendencies are none the less true. Human nature being the same everywhere in all essential particulars, the same sets of causes always tend to produce, under given circumstances, similar sets of effects. And as Indian conditions are gradually approaching nearer and nearer the conditions of the West, western economic theories are becoming increasingly applicable to Indian affairs. Besides, economic facts of the modern world are so closely inter-related, that it is not possible to study the problems of one country in complete isolation from those of others. It will not do, therefore, to brush aside the theories of General Economics as absolutely useless for our purposes. What is needed is to apply those theories to Indian conditions with such modifications and limitations as the differences in the circumstances may suggest. The economic phenomena of India must be studied separately, but they must also be considered in their relation to, and dependence upon, economic phenomena outside the country.

Complexity
of Indian
economic
phenomena.

The second difficulty arises from the fact that India is at the present moment in a state of economic transition. The older habits and customs are being modified by the impact of western ideas and ideals. New circumstances are bringing about changes in the social and economic life of the people. In fact, the conflict between the past and the present is now the dominating condition. The influence of the West is not, however, uniform throughout the country, so that we find industrial India standing side by side with agricultural India. Economic phenomena are complex everywhere, but this fact of transition introduces an additional complexity into the economic problems which present themselves for solution in India.

Want of
reliable
data.

Another obstacle with which the student is often faced is the absence of reliable data. There being few independent agencies for the collection and investigation of economic facts, the Blue-

sun to get cold, as reasons for our practical conduct within a reasonable distance of time." Ranade wrote more than half a century ago, and since then the situation has undergone considerable change; but his description of the state of things remains true to some extent even at the present moment.



books and Papers published by the various departments of the Government form almost his only source of information. But he cannot always depend upon such information, for the agency by which the statistics are collected is hardly reliable, and the method employed in their presentation is often unsatisfactory. Much care has, therefore, to be taken in the understanding and use of these statistics; and unless this is done, the student runs the risk of being led away into wrong generalisations and conclusions.

It is a matter of satisfaction that attempts are being made to improve the collection and presentation of statistics in India. The Department of Commercial Intelligence and Statistics of the Government of India is rendering valuable service in this respect. Publications like the *Indian Trade Bulletin*, the *Reserve Bank of India Bulletin*, the *Industry and Supply Bulletin*, the *Monthly Abstract of Statistics* and the *Indian Trade Journal* provide periodically a large mass of material for the study of the economic problems of the country. Some quasi-official bodies are making serious efforts for the collection of useful data, while the Indian Statistical Institute of Calcutta, with its branches in other parts of the country, is trying to devise methods for the better use of the available material.¹

Personal sentiment is yet another obstacle to the proper study of the subject. To make the study fruitful, absolute regard for truth is essential in the investigation of economic phenomena and personal likes and dislikes, as well as considerations of individual or class interests, must be wholly set aside. Unfortunately, the position in India is such that those who take part in economic discussions are often led by passion and prejudice to identify themselves with this or that party, and thus find it difficult to recognise and appreciate the whole truth. Personal sentiment.

These are some of the reasons which account for the fact that the study of economic conditions and problems in India was not, until recently, pursued with the amount of earnestness

¹ In 1933, the Government of India appointed Dr. A. L. Bowley and Bowley-Mr. D. H. Robertson to report upon the possible improvements in the Robertson collection of statistics in India. The report, published in 1934, gave Report. some practical suggestions regarding the proposed Census of Production and the reorganisation of the methods of collection and presentation of statistics.

which was necessary. M. G. Ranade was the first Indian to take up the study of Indian Economics in a scientific spirit. R. C. Dutt opened up a new line of enquiry by his scholarly studies in economic history and in some of the major economic problems of his times. Dadabhai Naoroji and G. K. Gokhale also made very valuable contributions to the study of Indian Economics in the course of their speeches and writings. The road pointed out by these great men has been traversed during the last half-century by a large number of scholars and practical businessmen, whose studies now cover a wide field.

In the following pages an attempt will be made to deal with the subject in a systematic manner. The prevailing method and arrangement of economic science will be followed, with such modifications as the differences in the social and economic organisation suggest and the theories of General Economics will be examined in the light of Indian facts.¹ It is not possible to present a full and exhaustive treatment of the various questions of Indian Economics within the limits of a medium-size volume like this. The object of the author is mainly to equip the reader with such knowledge of the economic facts and problems of India as will help him in pursuing fuller and more detailed studies of the different branches of the subject later.

¹ Economists in Europe and America are gradually coming to attach importance to what they describe as 'imperfect competition.' In India, imperfect competition is the most important characteristic of the economic order; it may not be therefore unreasonable to hope that a study of the economic conditions of India will help to elucidate problems of the pure theory of Economics.

CHAPTER II

THE NATURAL ENVIRONMENT

MAN is ultimately dependent on nature in every aspect of his life. His economic life, in particular, is closely related to the facts of nature. The physical environment is, in reality, the basis of all economic activity. In the case of India, therefore, as in that of any other country, a study of economic phenomena should start with an investigation of the physical factor. This subject may be considered, for our purpose, under the five heads of the geographical situation, the geological structure, the climate, the flora and fauna, and the facilities of communication.

1. GEOGRAPHICAL SITUATION

India, today, though diminished in size after Partition, still covers a wide area. Before Partition, India contained an area of 1,581,000 square miles and measured about 2,000 miles from north to south and more than 1,900 miles from east to west. At present the total area of the Indian Union is about 1,200,000 square miles. Its land area has considerably diminished but its sea frontier has not suffered much contraction. Extent.

The Himalayas, with their snow-clad peaks, form the northern boundary of this vast country. Undivided India was surrounded on all sides of the land frontier by lofty mountains. But Partition has deprived India of its basic advantage of being a geographical unit separated by nature from the rest of the world. The land boundaries of India on the west as well as on the east are at present artificial. Western Pakistan lies to the west of India, and on the east Eastern Pakistan forms a wedge between West Bengal and Assam. Boundaries

From the geographical point of view, India today may be divided into three major regions: the Himalayan region of the north, the Deccan Plateau of the south, and the vast stretch of plains standing between these two regions. Within its own borders the country presents so many marked differences in Natural Divisions:



physical features that India is often described as a continent rather than a country.

The
Himalayas.

The Himalayas, rising from the plains of India in a series of almost parallel ranges to the loftiest heights, and spreading over a vast area, are the most striking feature in the geography of India. Acting as a climatic barrier, and being the perennial source of the great rivers which moisten the parched lands of Northern India and endow the soil with inexhaustible fertility, they have always exercised the greatest influence not only on the physical condition of the country, but also on the moral and economic life of its people. Just below this great range lies the sub-montane region with its dense forests and an inhospitable climate.

Great Plain
of Northern
India.

Next comes the Great Plain of Northern India, watered by three great systems of Himalayan rivers—the Indus, the Ganges, and the Brahmaputra.¹ Broadly speaking, the western half of this plain may be described as dry and sandy, and the eastern half moist and water-logged, these features reaching their extreme points in the Great Desert on the west, and in Assam on the east. Southward lies the Peninsula, consisting of a rugged plateau separated from the north by the Vindhya range, and flanked on the west by the steep hills of the Western Ghats and on the east by the Eastern Ghats which gently slope into the Bay of Bengal. This plateau is of an average height of 1,500 feet, and is cut into a few deep valleys through which seven great rivers carry their waters to the Arabian Sea and the Bay of Bengal.

Peninsular
India.

2. GEOLOGICAL STRUCTURE

Geology
of India :

In ancient
ages,

India, in the ancient geological ages, was very different from what we find her now. Geologists say that in the earliest period she was represented by the southern peninsula and was connected with Africa by land ; while over the area where now exist the regions of the Punjab and Rajputana, the tides of a wide and shallow sea ebbed and flowed. Then followed a series of volcanic cataclysms and violent earthquakes which entirely

¹ Today, neither the whole of the Himalayan range nor the entire Northern Great Plain belongs to India, as large parts of both the Indus valley and the Brahmaputra valley are now included in Pakistan.



changed her natural features. Finally, as the result of a slow process of geological evolution extending over thousands of years, she acquired her present shape and physical characteristics. These successive formations have left their marks on the physiography of India, and they may be grouped under six heads: (a) Achæan, (b) Vindhyan, (c) Gondwana, (d) Basaltic, (e) Tertiary and Cretaceous, and (f) Alluvial. As, however, a detailed examination of these formations is not necessary for our purpose, we shall content ourselves with a general description of the various kinds of soils and minerals which owe their existence to them.

The most extensive, and agriculturally the most important, tracts are the alluvial. They comprise the greater portions of Gujrat, Rajputana, East Punjab, Uttar Pradesh, West Bengal, extensive tracts in Assam, the Godavari, the Krishna and Tanjore districts of Madras, and strips extending along the eastern and western coasts of the peninsula. Alluvial soils also fringe the courses of the rivers in many other places.¹

Alluvial soils differ in different parts of the country in respect of their physical as well as their chemical properties. Generally speaking, in north-western India the soils are porous, dry, and, in some places, sandy. In West Bengal, the soils are more compact, less coarse, and moist. The soils in the deltas of Peninsular India are non-porous, clayey, and of dark colour. The chief advantages of porous and light soils are that they are easily worked by the plough and easily permeated by water. They lead to great fertility of the land in places where the atmosphere is moist. But their great defect is that they allow the water to sink into the lower strata, and are unsuitable for the growth of those kinds of plants which require the retention of a great deal of moisture about their roots; and thus they cause infertility of the land in those parts in which showers are not frequent. The alluvial soils are, on the whole, rich in chemical properties. Phosphoric acid, potash, lime, and magnesia are found in sufficient amounts, but nitrates are often in defect. In some places, however, barrenness results from an excessive accumulation of magnesia and soda salts on the surface. A large variety of *rabi* and *kharif* crops is grown on alluvial soils.

¹ *Imperial Gazetteer of India*, vol. iii, p. 8.

**Trap soils.**

Next in importance are the trap soils which cover the whole of the Deccan and considerable parts of the Central Provinces, Hyderabad, and Kathiawar. On the uplands and the slopes of hills the soils are porous and light, and are generally poor. The chief crops of these areas are millets and pulses. In the lowlands the soils are thicker, darker-coloured and more fertile; they are suited to the growth of cotton, wheat, millets, and pulses.

Black cotton soils.

In portions of the Deccan trap area is found *regar*, or the black cotton soil,—so called from its dark colour and its suitability for the growth of cotton,—which possesses an almost inexhaustible fertility. This soil is the product of the decomposition of lavas. It is exceedingly compact and tenacious. It is highly retentive of moisture and rich in chemical properties. The kind of crops most suited to these areas is the *rabi*, but the *kharif* crops are also grown in many cases. Cotton, wheat, linseed, and millets are the chief crops. Soils akin to the black cotton soil of the Deccan are found in the river-valleys of a few other districts in Bombay, and also in parts of Madras.

Crystalline soils.

So much about the special varieties of soils. The rest of India may be described as the "crystalline soils tract". But these soils differ so much from one another in the different provinces in regard to their physical and chemical characteristics that it is hardly fair to put them all in one class. They are usually sterile when they occur on the uplands, but the clayey and brownish loams of the lowlands are fertile. The better kinds of such soils are suited to a great variety of crops, the most important being rice. The reddish-coloured laterite soils of certain districts in Bombay are rather infertile, being highly porous and dry. The crystalline soils generally are deficient in the nitrates and phosphoric acid.

In the midst of these varying features one characteristic is found to be common to almost all soils, *viz.*, their comparative dryness. This absence of moisture in the land makes the supply of water an absolute necessity in Indian agriculture.¹

Such is the surface of the earth as we find it in India. It is needless to say that it is of the greatest importance in the econo-

¹ In this respect, Indian conditions differ widely from those of England, where, on account of the presence of an excessive amount of moisture in the land, drainage is the most essential thing in cultivation.

mic life of her people, whose material and moral welfare is indissolubly bound up with the soil. But of almost equal importance is what lies beneath the surface. The wealth of a nation in modern times corresponds, in a large measure, to its output of economic minerals.

The mineral wealth of India has not yet been fully ascertained ; Mineral resources : but judging from the amount of actual production, her mines and her possibilities as shown by investigations, we may say that India is rich in mineral resources. V. Ball, in his introduction to the *Economic Geology of India*, quotes the statement of Megasthenes that "India has underground numerous veins of all sorts of metals", and regards it as absolutely true. He goes on to say, "Were India wholly isolated from the rest of the world, or were her mineral productions protected from competition, there cannot be the least doubt that she would be able, from within her own boundaries, to supply very nearly all the requirements, in so far as the mineral world is concerned, of a highly civilised community."¹ The mineral resources are widely distributed over almost the whole of her area, and it will perhaps be useful if we briefly describe the chief varieties.

Coal is the most important of the mineral products of India. Coal. Its quantity is large and the quality is good in many areas. It is found chiefly in West Bengal, Bihar, Chota Nagpur, Assam, and the Central Provinces, and in smaller quantities in Orissa, Central India, the Punjab and Kashmir.

The reserves of coal suitable for the manufacture of metallurgical coke are being rapidly used up. For years economists and others have urged that steps should be taken to conserve the coking coal resources. It is time to realise that there is some scope for the conservation of better quality coals.

Iron² ores of a superior quality are to be found in abundance Iron. in various parts of India. In fact the iron ore resources of India are as large in quantity and as superior in quality as those of the United States of America. In one tract alone, comprising

¹ V. Ball, *Economic Geology*, p. xv.

² The importance of iron and coal in the economy of a country is immense. The dominant industrial position of England is due, in a large measure, to her possession of an abundance of these minerals. Coal is important not only as ordinary fuel, but as the indispensable requisite in all productive industries.

the areas of Singbhum, Bonai, Keonjhar and Mayurbhanj in the States of Bihar and Orissa, the reserves of iron ores, with upwards of 60 per cent iron content are computed at no less than 3,000 million tons. There are also valuable deposits of iron ore in West Bengal, certain districts of the Central Provinces, the eastern half of Central India, several parts of Bombay and Mysore. It is also found in smaller quantities in East Punjab, the Uttar Pradesh, Kashmir and Rajputana.

Petroleum.

India is definitely deficient in petroleum. The Digboi fields in Assam produce about 60 million gallons per year. In recent years attempts have been made to find new sources of oil.

Rock-salt.

In undivided India rock salt was obtained from Salt Range in the Punjab. But with the Partition, India has lost this source and has to depend primarily on supplies from the salt lakés in Rajputana and the sea.

Tin.

There appears to be no workable occurrence of tin ore in India, but a small quantity is to be found in the Hazaribagh district of Chota Nagpur.

**Materials
for
industries.**

Of the materials used for agriculture and the chemical industries, saltpetre is the most important. The natural conditions for the production of saltpetre in Bihar are ideal, but the production is now diminishing. India is very deficient in her supply of phosphates, the only deposit worthy of note being in the Trichinopoly district of Madras. Potash salts are very rare. Gypsum, alum, and sulphur are obtainable in several parts of the country. Borax is obtained from Kashmir and Tibet. Soda salts are found in the soil in various parts of the country.

**Potash
and
Soda salts.**

Gold.

India was, in ancient times, famous for her precious metals. At present her production of these is not large, though it is still considerable. The most important of these is gold, which is found in substantial quantities in Mysore. Some amount is also found in the mines of Hyderabad and a few other places. Besides occurring in the free state in quartz veins, gold is sometimes found in the sulphide minerals. Thus, it occurs in Sikkim in mixed sulphide lodes and in the copper-bearing lodes in the Jubbulpur district of the Central Provinces. Besides, in all the States of India, particularly in Bihar and Chota Nagpur and in Assam small quantities of gold are obtained from river gravels by the indigenous process of washing.



Copper is widely distributed over the whole of India. It is found chiefly in Chota Nagpur, the Central Provinces, Rajputana, Southern India, and at various places along the Himalayas. There are large deposits of bauxite in Bihar, Madhya Pradesh and Bombay. Lead occurs in certain districts of Bombay. Zinc often occurs as an intimate associate of lead. The most important lead-zinc ore deposit in India occurs at the old mines of Zawar, Udaipur and other States of Rajputana. No silver mines as such have yet been discovered in India, but the metal is obtained as a by-product in the mining of gold and lead. Antimony deposits are found in the Punjab and Mysore.

Copper.

Bauxite

Lead.

Silver.

Zinc.

Manganese occurs in such abundance in the Central Provinces that India now alternates with Russia as the first manganese-producing country in the world. Other important deposits occur in Madras, Central India, Mysore and Chota Nagpur.

Manganese.

India has continued to be the greatest producer of block mica and mica splittings in the world, and this country is the chief supplier to the U.S.A. and the U.K. By far the greater part of the Indian production of mica—nearly four-fifths—comes from Bihar (chiefly Hazaribagh and Monghyr Districts), Madras (Nellore) and Rajputana (Ajmere-Marwara, Jaipur, etc.).

Mica.

Considerable quantities of chromite are obtained from Mysore State and Bihar (Singbhum). Small quantities of wolfram have been obtained from a deposit near Jodhpur State. Two other small areas—Agargaon in the Nagpur District and near Chendpathar in Bankura District—are being prospected. Magnesite is chiefly obtained from Salem District of Madras. Vanadium-bearing magnesite has been located in Singhbhum and the adjacent area of Mayurbhanj.

Chromite.

Tungsten

Magnesite.

Since 1937 India has become one of the largest producers of ilmenite in the world. The material is obtained from the beaches along the Travancore Coast where monazite, zircon and reutile are also found in association. Barytes are chiefly obtained from Cuddapah District of Madras.

Ilmenite.

Monazite.

Zircon.

Reutile.

Barytes.

Various kinds of precious stones are to be found in different parts of India,¹ important among them being diamonds, rubies,

Precious stones.

¹ Kautilya in his *Arthashastra* and the author of the *Periplus* mention a large variety of gems and pearls.

² C. S. Fox, *Mineral Wealth of India* (Geological Survey of India).



Diamond.
Sapphire.
Panna.

and sapphires. Diamonds occur chiefly in Madras, the Central Provinces, and in Central India. The chief seat of the sapphire is Kashmir, but the mines are said to be exhausted. The precious stone Panna has recently been rediscovered in the State from which it originally derived its name.

Miscel-
laneous
minerals.

Besides these, there are various kinds of miscellaneous minerals. Common stone and marble also are important, being the chief materials used for building and ornamental purposes.

Mineral
springs.

Numerous hot and mineral springs are found in different parts of India, but their neglect is a curious feature in the situation. As instances may be mentioned the hot springs at Manikarn in Kulu, the sulphur springs at Lasundra in the Kaira district and at Vajrabai in the Thana district of the Bombay Presidency, and other springs along the foot-hills of the Himalayas.

3. CLIMATE

Sharp
contrasts
in climate.

The climate of any place is determined by various factors, chief among these being its latitude, altitude, proximity to the sea, and position in regard to the prevailing winds. India is such a vast country that its parts differ widely from one another in respect of each of these factors, giving us sharp contrasts in climatic conditions.

Excluding the Himalayas, which act as a climatic barrier in shutting out the cold winds of Central Asia and keeping within the borders of India the vapour-bearing winds of the south-west monsoon, the country may be divided, for meteorological purposes, into two parts: Peninsular India and Northern India.

The Pen-
insula,—
variations
slight.

The whole of the Peninsula falls within the Tropics and has a hot climate, the variations of temperature between summer and winter being small. The coasts have an even smaller range of temperature, and the atmosphere there is usually cloudy. These features are specially observable on the windward coasts, and they diminish with increasing distance from the sea.

Northern
India,—

severe heat
and extreme
cold.

Almost the whole of Northern India lies beyond the Tropic of Cancer, but here the climatic conditions are more complex. In technical language, the climate may be described as continental. The severity of heat or cold and the amount of moisture present in the air, however, differ greatly in the different provinces and

during different seasons. In the Punjab we find bitter cold in winter and extreme heat in summer. As we travel eastward the severity both of heat and of cold steadily diminishes. In West Bengal and Assam, the winter is mild and the summer is moderately hot. Again, East Punjab and Rajputana are exceedingly dry, while the atmosphere of Assam is always saturated with moisture.

Altitude tempers the heat of low latitudes. Up on the hills, it is delightfully cool and refreshing even in midsummer, but beyond a certain point the excess of cold forbids human habitation.

These are the general features of the climate of India, which are, however, to a large extent disturbed by the periodical or monsoon winds, of which we shall speak presently.

The Indian year is divided into six seasons ; but, for economic purposes, it may be divided into two—winter and summer,—the latter being subdivided into dry summer (April, May, and June) and wet summer (July, August, and September). The seasons are of the greatest importance in the economy of Indian life, as they are accompanied by an alternation of the meteorological conditions which produces the most momentous results. In winter, dry land winds prevail over the greater part of India, while in summer we have winds of oceanic origin, with high humidity, much cloud, and frequent rain. This alternation is due to a difference in temperature and atmospheric pressure in different regions.

The seasons:
Winter,
Dry summer
and rainy
summer.

The whole of India lies within the belt of the northern trade-winds. Under normal conditions, therefore, we should expect the wind to blow from the north-east throughout the year. As a matter of fact, however, the north-east wind blows during only one-half of the year. During the other half, the wind movement is modified because of the presence of the continent of Asia near the equator. This disturbance of the air-current is due to the fact that land and water differ greatly in their behaviour regarding the absorption and radiation of heat. In April and May, the plains of Northern India become very much hotter than the water of the Indian Ocean near the Equator ; and, consequently, the pressure becomes much lower in the former region than over the Equator. The heated air rises and the cooler air from near

The monsoons.

South-west
monsoon.

the Equator rushes in to take its place. Thus an air-current is established in the lower strata of the atmosphere from the south towards the north. Just at this time, south of the Equator, the wind blows as a south-east trade-wind. As this wind reaches the Equator, it finds the barometric pressure higher there than in Northern India. It then swirls round and blows as a south-west wind, accelerating the air-movement which has already begun from the Equator towards India. This is the south-west monsoon. Being of oceanic origin, the wind is laden with moisture; and as the clouds are driven inland by storms, they drench the parched lands of India with rain. The south-west monsoon usually establishes itself in Bombay and West Bengal about the middle of June, and before the end of the month it extends over practically the whole of Northern India.

Two
currents:
Arabian
Sea Current,
Bay of
Bengal
current.

The South-west monsoon reaches India in two currents,—the Arabian Sea current and the Bay of Bengal current. The former gives rain to Bombay, East Punjab, and a part of the Central Provinces, and the latter to the rest of India including West Bengal. India gets nearly 90 per cent. of her annual rainfall from the south-west monsoon. This monsoon usually continues till September.

North-east
monsoon.

In October and November, the temperature over the land in India becomes lower than that over the sea near the Equator; consequently, the barometric pressure rises, and winds now begin to blow towards the Equator. This is often alluded to as the north-east monsoon; but it is, in reality, the normal north-east trade-wind. Being of land origin, it does not contain much moisture, and is, therefore, called the dry monsoon, in contradistinction to the south-west monsoon which is wet. The little moisture which it contains is really the residue left by the south-west monsoon, which has been prevented by the Himalayas from passing out of India. But the north-east trade-wind picks up a considerable amount of moisture during its passage over the Bay of Bengal, and gives rain to the south-eastern districts of Madras. This north-east wind is thus of great economic importance to Madras, although the total quantity of rain which India gets from it is rather small. Some amount of rain also falls in East Punjab during the winter months, which is probably due to local storms.

The amount of rain that falls in India varies from year to year. It depends on the force and direction of the air-current. The quantity which any particular part of the country receives depends on the configuration of the surface of the land, on its situation with reference to the winds, and on any other factor which causes reduction in the temperature of the air. For instance, while a large amount of rain falls on the west coast of the peninsula, the table-land of the Deccan and Southern India gets very little rain from the south-west monsoon, the Western Ghats acting as a barrier to the passage of the vapour-bearing winds. Where, on the other hand, no such obstacle is offered to the passage of the monsoon current, the clouds travel far into the interior of the country. The south-east coast of Madras does not receive much rain from the south-west monsoon, for it does not lie in the path of the winds, their direction being north-easterly. Again, any cause which cools the air-current leads to a condensation of water-vapour and to the fall of rain. Rainfall is abundant on the mountains and in forest tracts, while it is scarce in deserts where the atmosphere, being hot, is capable of holding in suspension a large amount of water-vapour. Thus the normal rainfall in the Cherapunji hills is 460", while in some parts of Rajputana it is as low as 8".

Amount of rain determined by—

Situation,

Height,

Moisture.

The success or failure of the crops is determined by the quantity, distribution, and time of occurrence of the monsoon rains. In European countries, the variations in rainfall may increase or diminish the abundance of a crop, but in India they produce far greater consequences. In one year rainfall may be so abundant that harvests are plentiful, in another an almost total failure of the rains may lead to a severe famine involving the loss of thousands of lives. But it is not agriculture alone that is affected by the monsoons; trade and commerce are largely dependent upon them, while the framing of the Annual Budget of the Government of India has been described by several Finance Members as 'a "gamble in rain." In fact, the prosperity of the country depends almost entirely on the monsoons; and natural water-supply is the chief factor determining the density of population and the state of civilisation in any particular part of India.

Importance of rainfall.

The climate of the country affects not only the productivity of the land, but also the physique and character of the people. A

Influence of climate on physique

and
character.

hot and moist climate tends to cause much fatigue after even moderate exertion and a general ill-defined condition of debility. It thus produces a disinclination to hard work. Various kinds of tropical diseases also render the body weak and reduce the span of life. The cumulative effect of all this on the people is to produce a lack of the energy and strength needed to develop the best in themselves and in the resources of the country.

4. FLORA AND FAUNA

Vegetable
life.

The geographical position of the country and its climatic and geological conditions have an important bearing on the vegetable and animal life of India. The large extent of its area and a great variety in physical features and climate, combined with the natural fertility of the soil, enable the country to produce almost every kind of vegetable life. In fact, the flora of India is more varied than that of any other area of the same extent in Asia, if not in the world. Here we find not only the tropical and sub-tropical products, but the products of the temperate zone as well. The most important among the tropical products obtained here are: rice, coffee, millet, tapioca, sugar-cane, cinchona, jute, spices, rubber and gutta-percha; pineapple, bananas, and other kinds of tropical fruits. The chief sub-tropical products grown are: cotton, tobacco, opium, and tea. Of the products of the temperate zone, the following may be mentioned as the more important: wheat, maize, barley, pulses, potatoes, hemp and flax, and various kinds of fruits. Besides these, many miscellaneous articles are found, such as a large variety of oil-seeds, gums, timber, and indigo.

Tropical,
sub-tropical,
and tem-
perate-zone
products.

Animal
life.

Animals are of great use for purposes of cultivation as well as of transport. At one time India possessed a fairly adequate supply of good and serviceable cattle. But of late there has been a great deterioration in the quality, and diminution in the quantity, of live stock. Being imperfectly fed and housed in insanitary sheds, cattle are constantly liable to diseases of various sorts; and the question of breeding does not receive the attention from the people which it should.¹ This paucity

¹ "Cattle disease", wrote the Agricultural Adviser to the Government of India, "is so serious an affliction that it ranks in many parts of India as a scourge, and is a direct obstacle to the amelioration of the condition of the cultivator" (*Report on the Progress of Agriculture in India, 1911-12*).

of good cattle is a great drawback in the improvement of agriculture. Cattle-rearing is difficult in those parts of the country in which rainfall is large, because the rain-water washes away the salient constituents which are essential to the health of the cattle. There the animals do not grow up to a good size, nor are they strong. For this reason, horses are rare in Lower Bengal, the Carnatic and Coromandel coasts. In the drier parts, on the other hand, such as East Punjab, Rajputana, and Kathiawar, very good horses are found. The most important of the Indian animals are bullocks, which are used almost everywhere for the plough as well as for carrying loads and drawing water. Buffaloes also are used for similar purposes in many parts. The cow and the she-buffalo are highly useful in almost every part of the country, as milk and *ghee* are among the chief articles of food consumed by the people. Sheep and goats are found in every province. The donkey is a very useful beast of burden, especially in Northern India. The camel is plentiful in the sandier parts of the country, and is a very useful animal for transport. The region in which good cattle is reared includes East Punjab, Kashmir, Rajputana and Kathiawar, where rainfall is not excessive.

Products obtained from animals, besides milk, are hides and skins, bones, wool, wax, and ivory, all of which are articles of utility and in demand. Animal products.

Of the aquatic products fish, of course, is the most useful. The pearl fisheries of the Indian Ocean are also very important from the economic standpoint. Aquatic products.

5. FACILITIES OF COMMUNICATION

The flatness of the surface makes communication easy in the plains of Northern India. Roads and railways can be constructed here without much difficulty. The Ganges, with its numerous tributaries and branches, furnishes some thousands of miles of waterways, which are of immense economic importance. The Brahmaputra also in its lower course affords some facilities of transport. Some of the tributaries of the Indus are navigable by small boats and by steamers during a part of the year. In the southern half of the country, the nature of the surface has placed great impediments in the Communication easy in Northern India, but difficult in the peninsula.



way of communication. Roads are not easy of construction, and railways have become possible only in certain parts of the peninsula, and even there only with the aid of much engineering skill. In these regions rivers also are not quite so useful as waterways, many of them being too impetuous in times of flood and too scantily supplied with water at other times.

The long sea-board of India offers facilities of communication between the coast districts of the country. But the number of natural harbours is not large, and during the monsoons the Indian Ocean becomes exceedingly rough. In spite of these disadvantages, the sea has now become a natural highway connecting India with the other parts of the world.

We have now finished our brief survey of the physical environment in India and its relation to the economic aspect of the life of her people. We have noted the many natural advantages which the country enjoys and the few difficulties it labours under. It is necessary to recognise the dependence of the people on nature ; but it would be a mistake to suppose that this dependence is absolute. Man can, in some measure, modify his environment. And the people of India can, by their intelligence and knowledge, control the forces of nature to a considerable extent. Let us try to understand this point more clearly.

The productiveness of the land depends on the fertility of the soil. But natural fertility is increased by the effort of man and decreased by lack of proper care. Wasteful cultivation may turn the best land into the poorest ; while the worst land can be converted into the most fertile by the application of proper manures and the adoption of a well-regulated method of agriculture. In mining, the extension of knowledge may lead to the discovery of new minerals or the artificial manufacture of useful metals, supplementing and even superseding the use of the minerals which are now known to the world. As for the climate, it is essentially unalterable ; but even here modifications may be secured in various ways. Afforestation may lead to an increase of rainfall where it is at present scanty, and irrigation may be so practised as to carry water to any place where it is wanted. Extensive drainage works, the reclamation of swamps and marshes, and the re-excavation of silted rivers may also affect for the better the climate of the country, the health of the people, and the moisture

The sea,
the great
highway.

Natural
advan-
tages
many ;
disadvan-
tages few.

Depend-
ence on
nature not
absolute.
Natural
obstacles
surmount-
able.

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conditions of the land. The effects of extreme heat and cold may be mitigated by various artificial means. The enervating influence of the climate on body and mind may be counteracted by the adoption of proper care and a scientific mode of living.

The flora and fauna of the country are determined partly by the physical conditions and partly by the will of man. Scientific knowledge may be applied to the improvement of the existing vegetables and fruits, and new varieties may be made to grow. So also, the breed of cattle may be improved and certain new kinds may be introduced.

As for communication, science has surmounted most of the difficulties which nature placed in certain parts of the country. Means of communication. Railways have penetrated into places which would otherwise have remained inaccessible. Motor vehicles have now become a valuable means of transport in every part of India. The formidable ocean now affords the easiest and cheapest means of transport, while recent developments in air services bid fair to abolish distance altogether. The post-office, the telegraph, and the wireless are the most important among the unifying factors of the whole country.

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CHAPTER III

THE SOCIAL STRUCTURE

THE PEOPLE

NATURE and man are the two chief agents in the production of wealth. In the last chapter we described the part played by nature in the economy of Indian life. The present chapter will be devoted to a brief discussion of the human factor.

Popula-
tion.

According to the census of 1941, the total population of India was 388,800,000. With an area of about half that of the U. S. A., India had a population three times as large. But since partition in 1947, two heavily populated areas, East Bengal and West Punjab, no longer form parts of India. It is very difficult to give any accurate estimate of the actual size of the population of the Indian Union at the present moment. It is believed, however, that it is about 347·34 millions.¹ The census of 1951 will provide the correct figures.

Density.

Taking India as a whole, there are on the average 246 persons to the square mile, as compared to a mean density of 685 persons per square mile for England and Wales, 127 persons for Europe as a whole, and 41 persons for the United States of America. In the provinces the number to the square mile is 341, and in the former Indian States, 130.² But the distribution of the people is not even throughout the country. The density of population depends on several factors, the most important of which are rainfall, the climate, the soil, the configuration of the surface, and the state of civilisation. As a rule, the population is the densest in those parts in which there is an abundant supply of water, either

Local dis-
tribution
unequal.

¹ The latest figure as reported by the Census Commissioner on April 21, 1950.

² Sir A. J. Baines pointed out (in an article in the *Journal of the Royal Statistical Society*, December, 1904), that, in the case of India, "the mean density figure is in itself peculiarly devoid of significance." The population per square mile in England and Wales is 685, Ireland 155, Germany 361, France 197, the United States 41, the U.S.S.R. 20, Belgium 727, Holland 674, Europe 127, Europe excluding U.S.S.R. 184, Canada 2·9, Australia 2·2, New Zealand 14·7, China 80·5, Egypt 40, and Japan (including Korea and Formosa) 372.



natural or artificial, or in other words, where the primary requirements of human life are satisfied with the greatest ease. But there are exceptions. The greatest density is to be found in Cochin State, which has an average population of 953 per square mile, and Travancore claims the second place with 792 to the square mile. In what was formerly called British India, leaving aside the urban province of Delhi which has a mean density of 1,559 per square mile, the greatest density is to be found in West Bengal where the average population is 779 to the square mile, and the next densest tract is the Gangetic plain of the Uttar Pradesh, with 518 per square mile.¹

The people for the most part live in villages. Only 14·0 per cent. of the population is found in towns compared with 49 per cent. in France, 53·7 per cent. in Canada, 56·2 per cent. in the U. S. A., and 80 per cent. in England and Wales. The proportion of the urban to the total population ranges from 25 per cent. in Bombay to only 2·8 per cent. in Assam.² There are only 58 towns with a population of over 100,000. The number of towns containing each a population varying from 5,000 to 100,000 is 5224.³ But the number of villages is nearly 600,000. The reason for this is to be found in the fact that the people are, in the main, agricultural. The rural people are generally less progressive in their thoughts, ideas, and habits than the town people, but there is no antagonism between life in towns and that in villages. There was a time when the urban population was larger, and the social importance of the towns greater. With the decay of the industries, the towns sank in importance, and for a time there was a tendency towards a larger propor-

Popula-
tion main-
ly rural.

Towns
compara-
tively few.

¹ In Assam the density is 186 to the square mile, in West Bengal 779, in Bihar 521, in Orissa 271, in Bombay 272, in Central Provinces and Berar 170, in Madras 391, in East Punjab 287, and the United Provinces 518.

² The percentages of the urban population to the total are as follows: Assam 2·8, West Bengal about 10, Bihar over 5 per cent., Orissa 4 per cent., the U. P. over 12 per cent., the C. P. and Berar 12·5 per cent., the Punjab 15 per cent., Bombay 25 per cent., Madras 16 per cent., Baroda 25·1 per cent., Cochin 18·5 per cent., Hyderabad 12·5 per cent., Delhi 75 per cent.

³ India has so often been referred to as a land of villages that the real size of its urban element is apt to be forgotten or not realised at all. It is time to realise that India is in process of urbanisation on a large scale. The number of cities with one lakh population and more was 35 in 1931 and 58 in 1941. The population living in cities of this size increased during the decade from 9·1 to 16·5 million a rise of 81 per cent. (Census of India Report, 1941).

tion of the people becoming rural.¹ In recent years, however, there has become discernible a tendency working in the opposite direction; and towns are once again beginning to take their proper place as centres of thought, culture, and economic enterprise in the life of the nation.

Division
into sexes.

The division of the people into sexes is important from the economic standpoint, for a very large proportion of the female sex in India can hardly be regarded as producers of wealth at all. The social customs prevent women, of the higher and middle classes in particular, from participating in the production of wealth, at least in a direct way. A disproportionate sex-ratio is, again, undesirable on social and eugenic considerations. Taking the country as a whole, there was in 1947 a slight excess of males over females. On an average, there were 935 females for every 1,000 males. In Bengal, the number of females per 1,000 males was 899; and in Calcutta the statistics showed a grave disproportion between the two sexes.²

Distribu-
tion by
age.

Another important fact about population is distribution according to age. The old and the very young are consumers of wealth, but not producers. Roughly speaking, the limits for active work in India may be put at the ages of 15 and 50.³ The number of persons between these limits is 505 per 1,000, or slightly in excess of 50 per cent. of the population. If we deduct from this the infirm and sick persons, as well as a large proportion of women who, owing to the *purda* system and other social customs, do not contribute to the economic life of the people in

¹ It was more than half a century ago that M. G. Ranade mournfully complained in his *Essays and Speeches* of this progressive ruralisation of the people. Not only has this tendency been checked now, but the recent trend is in the opposite direction.

² Census of India, 1941.

³ The theory of Sundbärg, the Swedish statistician, that the age group "15-50" contains about half the total population, holds good in India, but the local variations are somewhat greater than in Europe, and the proportions are apt to be disturbed by famine. But his other theory, namely, that the numbers in the two age groups "0-15" and "50 and over" approach equality is not true in India, because, owing to the shorter lives of the people, the rate of mortality amongst persons aged 50 and over is considerably greater than that amongst those under 15. He also holds that the number in the age group "0-15" must be double the number in the group "50 and over," if the population is to grow. In India, the number in the youngest age group is 39.9 per cent. of the total population, while the number of persons above 50 constitutes only 9.6 per cent. of the total. There are therefore indications of a progressive population in Indian Census statistics. (Vide *Census Report*, 1931, vol. I, part i, p. 87).

a direct way, we get the total number of able-bodied persons who are fit to participate in the production of wealth, or, in other words, who form the labour-force of the country.

The most important factor to be considered when dealing with the human element in production is the health of the people. The efficiency of labour is greatly impaired by the general ill-health of the people in most parts of the country. This is due to unfavourable climatic conditions, insufficient nutrition, want of pure water, insanitary surroundings, artificial modes of living, and unhealthy social customs. All these factors render the body weak and less able to resist disease. To these must be added the epidemics which sweep over the country every now and then, sometimes causing great havoc and devastation. Finally, the influence of heredity helps to perpetuate the evil effects, so that the physical deterioration of the people goes on increasing from generation to generation.

Health.

The economic condition of the people depends largely on how they earn their living; hence the great importance of the question of distribution by occupation. The most noteworthy fact in this connection is that 65·60 per cent. of the population is supported by agriculture and animal husbandry. Industries maintain 10·38 per cent., and trade and transport, 5·4 and 1·5 respectively. The rest of the people depend for their livelihood on the following occupations: professions, liberal arts and public administration 2·86, public force, 0·5, exploitation of minerals, 0·1, miscellaneous (insufficiently described and unproductive occupations, persons living chiefly on their incomes, and domestic service), 13·3. It ought to be noted that there has recently been a slight decrease in the percentage of population dependent on agriculture.¹

Distribution by occupation.

So much about what may be called the status of the population. But the dynamics of the population are also very important. Changes are effected by three factors: birth, death, and migration. We shall briefly notice each of them.

Dynamics of population.

¹ In 1921, the percentage was 72·17. A correct comparative estimate is difficult because many changes were made in the definitions and in the allotment of sub-classes during the last Census operations, and it has been pointed out that "the returns of this Census do not provide any direct figure for the distribution of the total population according to its dependence on various occupations". (*Census of India, 1931*).

Birth depends on marriage and fecundity. In India, marriage may be said to be almost universal. Religion and social custom used, until recently, to favour the marriage of persons, particularly of girls, at an early age.¹ Consequently, the hypothesis that marriages increase with prosperity and decrease with adversity does not hold good in India. As a matter of fact, improvident marriages are more frequent among the lower than among the higher classes. The proportion of celibates is much lower in India than in Europe and America. On the other hand, custom discourages the marriage of widows among the Hindus; moreover, as there is a considerable disparity in the ages of the husband and the wife, we find a higher proportion of widows here than in European and American countries. The proportion of widowers also is a little higher. The fecundity of marriage among the poorer classes is greater than among the middle and higher classes, and also among the Muslims than among the Hindus. This difference is due perhaps to the absence of prudential considerations among the less advanced sections of the community. The average crude birth-rate in India was 33 per cent between the years 1931 and 1941.² No reliable figures can be obtained of the refined birth-rate, that is to say, of the births compared with the number of women of child-bearing age. But it may be said in a general way that women begin to bear children at a comparatively early age and also cease rather early.

The increase or decrease of population depends not only upon the birth-rate, but upon the death-rate. In India, the death-rate is abnormally high, as compared with the death-rate in other civilised countries. About one-fifth of the children born die within the first twelve months.³ The high rate of mortality

¹ Public opinion, however, is now gradually asserting itself against early marriages. The provisions of the Sarda (Child Marriage Restraint) Act of 1929 were made more stringent by an amending Act passed in 1938. In 1948, the marriageable age of girls was further raised.

² Vide *Census Report*, 1941. The vital statistics of India are admittedly defective, containing as they do a substantial percentage of errors.

³ The infant mortality rate was 197.9 per thousand of live births in 1921. This rate declined to 160 in 1941. In 1941, a birth-rate of 33 per thousand on a population of 390 million was modified by a death-rate of 22 per thousand, leaving a survival rate of 11 per thousand of population. In India maternal mortality per thousand births was estimated in the neighbourhood of 20 as compared with 2.9 per thousand in England and Wales. (*Census Report*, 1941).

Marriage.

Birth-rate.

Death-rate.



in India is due to several causes,—famines, epidemic diseases, want of proper food and good drinking water, insanitary conditions, and the impaired vitality caused by early marriage.¹ In bad seasons the population usually decreases; while in good seasons there is an increase of population, this being due not so much to increased birth-rate as to the diminution in mortality. The mortality in towns is a little higher than in the country.

According to actuarial calculations, the estimated expectations for male, and also for female lives, for all India are materially below those deduced from English lives at all ages. Up till 1911, the estimated expectations showed a gradually declining tendency; the estimate made in later censuses, however, indicated a moderate increase. But even now the figures are very low and this serious state of things demands the immediate attention of the state as well as of the educated community.²

Actuarial
calcula-
tions of
duration
of life.

Migration is another factor which affects the size of the population. Migration is of two kinds : internal and external. Internal migration, again, may be casual, temporary, periodic, semi-permanent, or permanent. Casual or temporary movement of the people from one province or district to another goes on continually. For instance, the factory hands in the Calcutta mills are mostly drawn from up-country. Periodic movements are due to the seasonal demand for labour. Semi-permanent movements also are not infrequent. But the permanent type of emigration, or colonisation, takes place very rarely. The conservative habits of the people, their love of home, their poverty, their lack of knowledge of labour conditions in other parts, all tend to keep them tied to their native villages. One important

Migra-
tion—
internal.

¹ The Famine Commissioners of 1898 said in their Report: "Epidemics may sweep them off by tens of thousands without attracting attention, because these agencies are incessantly at work. Famine, which intensifies their activity, is more conspicuous from its less regular occurrence, but it is really only one, and perhaps not the most deadly, of numerous influences by which at present human life is cut short, and which can be effectually counteracted by the general advance of society in wealth, knowledge, and material resources." (p. 29).

² The estimated values for male lives and female lives were in 1881 respectively 23.67 and 25.58; in 1891—24.59 and 25.54; in 1901—23.63 and 23.96; in 1911—22.59 and 23.31. Actuarial estimates are not available for 1921 and the later years. In Sweden the estimates for males and females are 60.72 and 62.95 respectively (1921-25); in Germany—55.97 and 58.82 (1924-26); and in Japan—42.06 and 43.20 (1921-25). (*Vide* the Actuarial Report of Mr. L. S. Vaidyanathan, included in the *Census of India*, 1931).

instance of a permanent movement, during recent years, has been the migration of a large number of people to the Canal Colonies in the Punjab. Assam gains most on the whole from inter-provincial migration. West Bengal and Bombay also show substantial figures of net gain. Among the provinces that lose population on account of internal migration in normal times, Bihar ranks first. Orissa, Uttar Pradesh and Madras also send away large numbers of inhabitants to other parts of India. After the Partition of 1947 large-scale migrations took place to and from West Pakistan and India, while movements of population on an enormous scale are still continuing between Eastern Pakistan and India.

external,

emigration,

immigration,

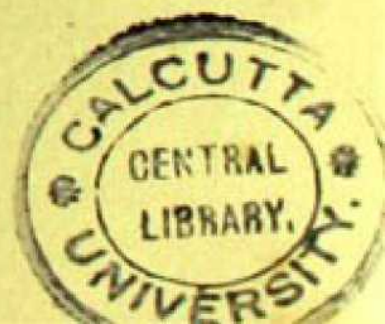
External migration may take the form either of immigration or of emigration. As for the former, there are in India altogether 8,50,203 persons of foreign birth. Emigration serves as an outlet for the surplus population of the country ; but the actual total number of emigrants from India is so small that, for practical purposes, it is not of much importance. In 1921, the total number of Indians in other parts of the British Empire was 1,662,000 ; in 1931, the number rose to 2,300,000. In the world as a whole, it is estimated, there are nearly 2·5 million Indians outside India, and the actual number of Indians who emigrated during 1921—1931 was estimated at 1 million. The emigrants used formerly to go to the British Colonies (Mauritius, Natal, British Guiana, British West Indies, Fiji, etc.). But the conditions of existence of the Indian settlers in the Colonies are very far from satisfactory. After the passing of the Emigration Act of 1922, emigration was controlled by the Governor-General in Council. In the past Malaya and Ceylon were the two most important countries for Indian emigration. Recruiting of Indian labour to Malaya was, however, stopped in 1930. Further restrictions were imposed by the Government of India on emigration to foreign countries ; for instance, in 1938 a Bill was passed with the object of making the conditions of emigration to Malaya almost prohibitive. The question of emigration as a measure for relieving the pressure of population deserves careful consideration.

The caste-system and social custom used in olden days to prevent absolutely the movement of labour from occupation to occu-

pation. These influences are, however, losing their force every day, and restrictions are gradually passing away. But even now the occupational movements are very far from being completely free. from occupation to occupation.

In the course of the decade 1921 to 1931 the population of India increased from 319 millions to 353 millions. The rate of increase was a little over 10 per cent. In 1941, the total population increased to 388 millions, while the census of 1951 is likely to record a further increase. Now the question arises whether the population is increasing too fast. There are some thinkers who are alarmed at the rate of increase, and who assert that the pressure of population on the means of subsistence is one of the chief causes of the extreme poverty of the people and who predict that this pressure, if allowed to grow unchecked, will in the near future greatly intensify misery in the country. While this view is worthy of serious consideration, there are other aspects of the question which cannot be entirely ignored. As Prof. Seligman points out, the problem of population is not one of mere size, but of efficient production and equitable distribution. The law of diminishing returns applies with full force only to agriculture, and the real antithesis is not between population and food, but between population and wealth.¹ Increase of population.

¹ For a fuller discussion see Part II.



CHAPTER IV

THE SOCIAL STRUCTURE—(Continued)

SPECIAL FEATURES OF INDIAN SOCIETY

I THE CASTE-SYSTEM

THE most striking feature in the structure of Hindu society is what is known as the caste-system. It is a very ancient institution, but when and how it first appeared it is impossible to say with any degree of certainty.

Origin.

We find it vaguely alluded to in a few passages of the Vedas, and recognised in Manu's code, in the great Epics and in the Puranas. The original distinction was perhaps based on colour, the Aryans being white and the non-Aryans brown or black. Subsequent distinctions must have arisen from differences in respect of qualities and occupations.¹

Essential feature.

The essential feature of the system² is that "birth determines irrevocably the whole course of a man's social and domestic

Senart's views.

¹ In the Bhagavat Gita, Sreekrishna, the incarnation of the Deity, says, "I have created the four castes according to the qualities and occupations of their respective members." M. Senart is perhaps right in saying: "Caste is the normal development of ancient Aryan institutions, which assumed this form in the struggle to adapt themselves to the conditions with which they came into contact in India." It appears quite probable that, being surrounded on all sides by hostile aborigines, the Aryans found it necessary to set apart the hardest portion of the population for the exclusive occupations of war and government. Thus perhaps was formed the Kshatriya caste. Then, as engagement in warfare was found incompatible with the performance of religious ceremonies and the acquisition of learning and the imparting of education, the most intellectual and selfless among the people formed themselves into a separate class. Thirdly, as the importance of agriculture, industry, and trade was realised more and more with the growth of civilisation, a third class began to devote their energies exclusively to those occupations; and lastly, the less cultured among the Aryans, together with the conquered tribes, formed the Sudra caste. In course of time, subdivisions of these original castes were made, and many new ones came into existence. In the earlier stages of national development, as M. Senart points out, the principles underlying the social structure of the Greeks and the Romans were the same as those of the Hindus. In India, however, the distinctions became rigid and stereotyped; in Europe, society was soon able to throw off the shackles.

² A caste is defined in the *Imperial Gazetteer of India* as "a collection of families or groups of families, bearing a common name which



relations, and he must through life eat, drink, dress, marry, and give in marriage in accordance with the usages of the community into which he was born."¹ Mahomedanism, in its pure form, inculcates equality among all followers of the religion and is opposed to the system of a hierarchy of castes. But in India the contagion has spread to the Muslims, among whom caste tendencies are visible. Caste tendencies among Mahomedans.

The chief economic significance of the caste-system is that it fixes absolutely the supply of any kind of labour. The scope given to the play of competition thus becomes limited, and consequently the law of demand and supply is rendered either inoperative or oppressive in its operation. When there takes place any change in the economic world, labour is unable to adjust itself to the altered circumstances and suffers in consequence, sometimes very heavily. Wages and prices have very often to be regulated by custom or some other artificial means. Further, the institution of caste is ill-suited to large-scale production, in which minute sub-division of labour is essential and which requires the supply of any kind of labour to immediately respond to the demand for it. Under the caste-system the Economic significance. Limitation of competition. Unsuitable to large-scale production.

usually denotes, or is associated with, a specific occupation; claiming common descent from a mythical ancestor, human or divine; preferring to follow the same calling; and regarded by those who are competent to give an opinion as forming a single homogeneous community. Dr. J. H. Hutton in the *Census Report* for 1931 discusses the origin and nature of the caste-system. Taking up one by one the traditional view of which the Code of Manu is the best exponent, the occupational explanation of Nesfield, the tribal and religious explanation of Ibbetson, the family or gentile explanation offered by Senart, and the racial or hypergamous explanation of Risley, he shows that none of these theories explains fully all the incidents of the caste-system. A correct explanation of the system must explain the gradations of the castes and the taboo on commensality. According to Dr. Hutton, the caste-system originated long before the Aryan settlers came to India, and the main factor that led to the formation of commensal groups was the primitive belief in "the magical effects of food on the consumer." These taboos on food, together with the local taboos against certain crafts and persons tended gradually to create rigid walls between groups. "It must have remained," he concludes, "for the Indo-European invader, with that pride of race which has ever and everywhere characterised him, to have the effect of crystallising, on the basis of a fixed social scale, the pre-existing taboos arising from magical ideas, ultimately resulting in an attempt to describe in terms of an intrusive Indo-Aryan society a social system really based on the taboos of pre-existing conditions." (*Census Report*, 1931, vol. I, part i, chap. 12.) How far this view is correct it is not necessary for us to discuss here. Definition and nature.

¹ *Imperial Gazetteer of India.*

Capacities
not put to
the best
use.

people lose their adaptability to changed circumstances. The system, moreover, has its influence on the character of the individual. Where birth determines the whole course of man's occupation in life, there is little chance of his capacities being always put to the best use, and each profession may have to tolerate many persons who are incompetent or useless in that particular profession but who might perhaps do better in some other. Denying, as it does, equal opportunities to all, it often becomes the source of grave injustice to large classes of the community.

Inherited
skill.

The result is a great economic loss. But, on the other hand, much economic advantage ensues from the fact that every man inherits a certain amount of skill from his parents and unconsciously imbibes much of the technical knowledge from the atmosphere of the particular profession in which he is brought up. Another great merit of the system is that, by limiting the influence of competition, it stands forth as the protector of the weak. Everyone finds a place in the economic organisation—no one is absolutely helpless. Whether the merits of the system are greater than its defects or *vice versa* is not a question for the economist alone to answer. But the prevailing opinion seems to be that the advantages are far outweighed by the disadvantages. Some would regard the caste-system as the chief cause of the economic stagnation of the country and the political enslavement of her people for a long period of time.¹

Caste the
protector
of the
weak.

Balance
of merits
and
defects.

Caste-
system
modified.

Changed conditions have, however, led to a substantial modification of the system. The *Census Report* of 1931 directed attention to the tendency towards the consolidation of groups once separated by caste rules. "On the whole," said the *Report*, "it is fair to conclude that there is a tendency for the limitations of caste to be loosened and for rigid caste distinctions to be broken down." Occupation is not now necessarily the indication

¹ Mr. C. B. Phipson, in his excellent book, *The Science of Civilisation*, says: "No system could be more opposed to economic freedom than this [the caste-system], or any devised more restrictive of economic development Caste presents a solid barrier to mental development generally, or, to that enquiry into, or mastery over, the powers of nature without which there can be no rising to the higher levels of civilisation. It leaves, therefore, every people subservient to it at the mercy of whatever more advanced nation is interested in subduing them [In India] a fairly high level of economic development had been reached before the institution of caste arrested further progress."

of a man's caste. (Members of different castes are nowadays to be found in almost every occupation. Education, better communications, and the economic struggle have combined to take away caste differences in many instances. Independent India has made the practice of untouchability a punishable offence. (The public schools are open to untouchables, and a private school is liable to lose State assistance if it refuses to admit them.) (The Government of India and the State Governments do not take caste into consideration while making recruitment to the services.) (The Constitution of India which came into force on January 26, 1950, has gone so far as to guarantee the employment of a certain percentage of the scheduled castes in the services. In its preamble, the Constitution guarantees "equality of status and opportunity" to all, and in the section dealing with the Fundamental Rights it specifically states that the State shall not discriminate against any citizen on grounds only of religion, race or caste. Equality before the law is assured to all.) Although the caste-system is not likely to disappear completely very soon, its rigidity is being gradually reduced, and those features of the system that have been found unsuited to the economic and social conditions of the present day are being quickly eliminated.

Rigidity
being
relaxed.

An important institution connected with the caste-system was the caste-guild of ancient times. Each caste was, to some extent, also a trade-guild. As a trade-union it used to insist on the proper training of the youth of its craft, to regulate wages, to deal with trade delinquents, and to supply courts of arbitration for the settlement of disputes. Its chief objects were to regulate competition among its own members and to uphold the interests of the body in its disputes with other craftsmen. The decisions of the guild were enforced by social penalties or fines. The guild encouraged efficiency by means of rewards, and discouraged inefficiency by social disfavour. It also exercised the functions of a mutual assurance society ; and by finding employment for the unemployed and helping the poor and the needy, the guild-system avoided the necessity of a poor-law.

The caste-
guild.

Its
functions.

Its
objects.

The caste-guilds of India were, in many respects, similar to the guilds of mediaeval Europe. But there were many points of difference. These latter were not endogamous, and there was no

Caste-
guilds
compared
with



mediaeval
guilds of
Europe.

bar to the admission of outsiders who had learnt the business into the circle. The common occupation was a real tie and a source of strength, not a symbol of disunion in the different parts of society as in the case of the Hindu guilds. Lastly, the European guilds might—as they did—expand and develop, while the Indian system was rigid and stereotyped.

Their im-
portance.

There was a time when these caste-guilds were of the greatest economic importance. By their excellent organisation they largely promoted the production of wealth. The famous fabrics of rural India were developed under the supervision of these guilds. Caste-guilds as such are now to be met with only in a few places in India,¹ and even where they exist they do not exercise anything like their old influence. But there are trade- or craft-guilds in almost every part of India, the objects of which are similar to those of the caste-guilds of old, but which are rarely strong enough to perform their duties in a proper manner. The membership is not necessarily confined to one caste. The bond of union is not very strong, and they lack the unity of sentiment and efficiency of organisation which ensure the success of the trade-unions of modern Europe and America.

Modern
trade-
guilds.

Mahome-
dan
guilds.

The Muslims of India also have their trade-guilds, which are organised on principles similar to those of the Hindus. But the organisation of Muslim society prevents these guilds from being stereotyped into castes. In some trades the guilds are well organised, and are strong enough to wield considerable influence over the members.

2. THE JOINT-FAMILY

Family
the unit of
society.

In India, the unit of society is not the individual, but the family. Among the Hindus, this family includes not only the husband, the wife and the children, but many more members in addition. The essential feature of the system is that the consumption of goods is common, and every member of a family shares in the prosperity or adversity of every other member.

Consump-
tion in
common.

Joint
property.

The Hindu law of property is essentially different from the laws which regulate property in the West. In Europe and

¹ The mention of guilds in Kautilya's *Arthashastra* proves that they existed long before the commencement of the Christian era. Remnants of the old guild-system still exist in some parts of the country.



America ownership, as a rule, is single, independent, and unrestricted. In India, corporate property is the rule, and absolute unrestricted ownership is found only in a few parts of the country and in rare instances in the rest. The law in this respect is based on the joint-family system, which was, and to some extent still is, the backbone of Hindu society.¹

Originally, every Hindu family, with all its property, was not only joint but indivisible.² Now it has ceased to be so; but so long as partition does not take place, jointness is presumed, and every member has the right of enjoyment to the family property. The system is organised on the principle of subordination of all members to the head—not on co-ordination or equality.

There is a great deal of divergence in the doctrines of the various schools of Hindu law. The Mitakshara school, which governs the greater part of Hindu society outside Bengal, is more rigorous in its regard for the security of the joint-family than the Dayabhaga school which governs Bengal proper. According to the former, ancestral property is owned and enjoyed by the members of a family as a whole, the share of each remaining unascertained until and unless there is a regular partition. The person who is the head of the family for the time being is only the manager and has no right to sell or dispose of it in any way, except for the benefit of the family or for legal necessity. Dayabhaga, however, gives greater powers to the head of the family, and, according to recent decisions, he is considered as the absolute owner of the property, having full rights of disposal over it. As for self-acquired property, both the schools give the owner full rights to it.

Schools
of law:
Mitak-
shara.

Daya-
bhaga.

The joint-family system has existed in India for ages, but is now in a state of decay. This is regarded as a blessing by some thinkers and as a curse by others. Looked at from an economic standpoint, the system appears to have merits as well as defects. The chief merit lies in the fact that almost everyone can be sure of a bare subsistence, which is the first condition of economic advancement. Children are not liable to be cast adrift into the world at a time when their physical and mental capabilities are as yet undeveloped. They receive a start which is a great

Merits of
the joint-
family
system.

¹ Mayne, *Hindu Law*, p. 293.

² Mayne, *Hindu Law*, p. 332.



advantage to them in their race of life. The aged, the weak, and the infirm are also taken care of and are made useful members of society.

Defects.

But, on the other hand, it should be noted that when the means of subsistence are secured without any effort on a man's own part, he loses the great incentive to work, and is apt to become lazy and dependent on others. Self-reliance—the great virtue without which no economic progress is possible—is thus discouraged. Economic freedom, which is such an important matter in the production of wealth, is also curtailed. Moreover, the burden of a large family makes a man afraid to undertake risks and unwilling to launch on new ventures. He is thus in a manner prevented from making the best use of his capacities.¹

Sometimes,
production in
common.

Sometimes, not only consumption but also production is found to be in common. Every member contributes by his labour to the production of the family wealth. In such cases, the members of the joint-family are like the members of a communistic or co-operative society, and the advantages of the joint system are secured without some of its usually attendant evils. The situation is reversed in instances in which only a few persons work and the rest depend on them for subsistence.

As for the balance, the economic gain is in some cases greater, and in others less, than the loss. Whatever may have been its merits in the past, the system is now steadily losing ground.

Mahomedan
system.

The Mahomedans also generally live under the joint-family system, but among them there is no presumption of jointness. The bond of union, in fact, is not so complete as among the Hindus, and, consequently, the system is far less rigid. The Mahomedan law gives the owner of the property for the time being absolute dominion over it, whether such property be self-acquired or ancestral. He can dispose of it in any way he likes, provided that operation is given to the transaction during his lifetime. It is only in respect of dispositions by will that the donor's power is limited by the rights of his heirs.

¹ Sir Sankaran Nair, comparing the English with the Indian law, said: "The one law is individualistic, and based on the inviolability of contract, with the result that success attended energy and labour. The other was rooted in communistic and family bondage, and was one of status, fostered indolence and stifled all energy" (Article headed *Indian Law and English Legislation* in the *Contemporary Review*, August, 1911).

Like the caste-system, the joint-family system is also gradually decaying. Here also the economic struggle has come in as a disruptive factor. The village artisans are no longer able to get a living from their traditional occupations. The railways and other means of communication have also been effective in breaking up the joint families by making internal migration easier. The spread of European ideas and the gradual introduction of English legal principles in our system of laws have also been partly responsible for the dissolution of many joint families. This, however, is not an unmixed good. In a country where neither the Government nor any other institution makes arrangements for social insurance, that is to say, for the protection and maintenance of the aged, the poor, the orphans, and the widows, the disruption of the joint families may lead to many practical difficulties.

Gradual disruption of joint-family system.

3. THE LAWS OF SUCCESSION

There is no such thing as succession, properly so-called, in an undivided Hindu family governed by the Mitakshara law. The whole body of such a family constitutes a sort of corporation, and, on the death of any member, the property devolves on the remaining members by survivorship and not by succession. Succession takes place only when property is separate. Under the Dayabhaga law, however, succession takes place even to the joint property. The whole of the property passes to the male children, when there are any. If there be no male children, it passes to the next of kin.

Succession: among Hindus ;

Under the Mahomedan law, the property is divided, on the demise of its owner, among a large number of heirs, many of the near relations obtaining shares even when there is male issue.

among Mahomedans.

The law of primogeniture does not exist in India, except in the case of ruling chiefs or in a few families where there is a special custom to that effect. Thus, according to the Hindu as well as the Mahomedan law of inheritance, property, whether real or personal, is divided among a number of persons. The result of such division is that it prevents the accumulation of wealth in a few hands and enables a considerable number of persons to enjoy moderate wealth. It minimises the distance between the high

No primogeniture.

Division of property: its advantages ;

and the low, and fosters a large middle class. Such a system is admirably suited in one respect to the industrial progress of a country, for it gives to a considerable part of the people something to start life with ; and this amount not being large enough to live upon, most people are driven to work in order to be able to live in the standard of comfort proper to their social status. It fosters the growth of self-respect and develops habits of self-help and self-reliance among the people. On the other hand, it hinders large-scale production for want of a concentration of capital, and in a country where the Joint-Stock and Limited Liability systems are not yet fully developed, it tends to arrest industrial progress.

disad-
vantages.

New
Bill.

In recent years some modifications have been made in the laws of succession, and drastic changes have been embodied in the Hindu Code Bill now before the Parliament of the Indian Union.

4. THE VILLAGE SYSTEM

Population
largely
rural.

As we have already seen, the great body of the people of India is rural. It is so, not because the people do not know the art of building towns, but because the occupation of agriculture makes it necessary for the people to live in villages.

From the very earliest times, the village has always been the unit of administration in India. Here, as in all other countries of old, the people gathered together in villages for better protection and mutual assistance. The peculiarity of India, however, lies in the fact that a system of village communities was developed in many parts of the country, which lasted many hundreds of years. Sir Charles Metcalfe gave an excellent description of these organisations, from which the following lines are worth quoting: "The village communities are little republics,¹ having nearly everything they can want within themselves, and almost independent of foreign relations. They seem to last where nothing else lasts. Dynasty after dynasty tumbles down ; revolution succeeds to revolution ; Hindu, Pathan, Mogul,

Village
communi-
ties.

Sir Charles
Metcalfe's
view.

¹ In Bombay, it was reported in 1819 that "these communities contain in miniature all the materials of a State within themselves, and are almost sufficient to protect their members if all other governments were withdrawn" (*Elphinstone's Report on the Territories acquired from the Peshwa, 1819*).



Mahratta, Sikh, English, are all masters in turn, but the village community remains the same."¹

Although the system of village communities is now in a state of decay, it has not yet been entirely overthrown. It still exists in a state of greater or less completeness in many parts of India, especially in the West Punjab and Madras. In Northern India, these villages are usually walled in, and the people live within them as compact groups. Each village has its arable land and grazing field just outside the limits of the inhabited area. This land, together with the dwelling-houses, is technically known as the village. Its constitution and ownership may change, but the village itself as a local feature always remains the same. The village.

The original cause of the foundation of village communities is to be found in the co-operation of a number of persons for clearing the jungle and for defence against wild animals and neighbouring enemies. But the bonds which hold together the village landholders are not merely physical, but also social and economic. Origin.
The bond.

There are two main types of villages—the Raiyatwari and the Landlord- or Joint-village.² In the first, the village contains a number of cultivating holders, who usually till the land themselves, but sometimes employ tenants. These holdings are separate units—they are not shares of a whole belonging to them all. The several holders are distinct in interest, and the only bonds which unite them are locality, common subjection to the headman, and common services of the village artisans and menials. This form of village is universal in Madras, Bombay, Central India, and Berar; it also originally existed in the Central Provinces and parts of Bengal. Two kinds:
Raiyatwari,

In the Landlord-village, the holdings of the cultivating landholders are not separate units; they are parts of the entire area Landlord-village.

¹ Sir Charles Metcalfe continues: "This union of the village communities, each one forming a separate little State in itself, has, I conceive, contributed more than any other cause to the preservation of the people of India through all the revolutions and changes which they have suffered, and is in a high degree conducive to their happiness, and to the enjoyment of a great portion of freedom and independence." In regard to Madras, the Fifth Report, 1812, says: "Under this simple form of Municipal Government the inhabitants of the country have lived from time immemorial. The inhabitants give themselves no trouble about the breaking up and divisions of Kingdoms."

² Vide Baden-Powell, *Land Systems of British India*.

of the village which is owned by an individual or a family having the claim to be superior to the cultivating landholders. The proprietary body¹ is of common descent and may consist of a large number of co-sharers. This co-sharing body rarely cultivates the land itself; more often, the land is cultivated by a subordinate body of tenants who pay rent to the landlord (or body of landlords).

Principles
of sharing.

There are three principles according to which land is divided among the co-sharers: (a) The ancestral or family-share system (known as the *pattidari* system), by which each member of the co-sharing body takes the fraction of the whole which his place in the family "tree" or genealogical table points out; (b) special customary system of sharing, e.g., sharing in equal artificial lots (called the *bhaiachara* system), sharing by ploughs, or with reference to shares in water, or shares in wells; and (c) the system of *de facto* holdings, by which what each now holds is regarded as the measure of his interest. The Landlord-village system prevails in Uttar Pradesh and East Punjab.

Sources.

Landlord-villages owe their origin to one of three principal sources. First, they may have been founded by single persons or grantees or revenue farmers; or they may have been founded by the dismemberment of the houses of ruling chiefs; or thirdly, they may have been created by tribal groups or colonist associations, as, for instance, the Jats and the Rajputs.

Village
officers.
The
Headman:
his func-
tions in
Raiyat-
wari,

In each of the Raiyatwari villages there is an official headman (called *patel*, *mandal*, or *reddi*). His office has always been regarded as of great importance. He often exercises petty magisterial powers, and also decides petty suits either as an arbitrator or as a civil judge. He also performs various duties of a general character, concerning the well-being of the village. But he has no responsibility for the revenue, except that of his own holding. He holds a hereditary position, and is remunerated by the grant of a plot of land. In the Landlord-villages the business of the village is entrusted to a *punchayet* or council of village heads, the leading man among them being selected as the representa-

and
Landlord-
village.

¹ Sir Henry Maine thinks that property in land, as it is understood in Europe, is a comparatively modern institution; but Baden-Powell, a great authority on the subject, contests this view (*Vide* Baden-Powell, *Indian Village-Community*).

tive of the body and the headman. He is called the *lumbardar*, and is directly responsible for the revenue of the village.¹

Another officer of the village is the *patwari* or accountant. He is entrusted with many important duties. He has to keep the village accounts of revenue payment by the proprietors or co-sharers, and outstanding balances ; of rent payments by tenants, and of items chargeable to the common expenditure of the village. He has to produce and keep the village maps, field-registers, and other records of landed rights, shares, and interests. He fills up the statistical returns of the crops sown and harvested, the number of cattle, and such other things. He has to take note of all changes that occur in the ownership of land. Lastly, he has to report at once to the *tahsil* any unusual occurrence in the village. Besides these officers, there is a watchman or *chowkidar* in each village, and, in some cases, one or two other petty officers.²

The
Patwari:
his duties.

Until recently, each village constituted an economic unit, of which the chief feature was its self-sufficiency.³ It used to be, to a large extent, independent of relations with the outside world, so far as its internal economy was concerned, for within its own boundaries the village possessed all the factors which were requisite for the supply of its few wants. Even now the great bulk of the people is agricultural. The cultivators take lease of small plots of the village land either directly from government or from a landlord (or a body of joint-landlords), to whom they pay rent. They work the land themselves with the aid of their family members and sometimes also of hired

Village
economy.

¹ There may be more than one *lumbardar* in a village.

² In deed of gifts by the minister of Bukka Raya, King of Vijayanagar, dated A.D. 1187, the following list of village officers is given: (1) Reddi, (2) Karnam (accountant), (3) Purohit, (4) Blacksmith, (5) Carpenter, (6) Money-changer, (7) Policeman, (8) Potmaker, (9) Washerman, (10) Barber, (11) Messenger, (12) Worker in skins.

³ Vide Baden-Powell *Land Revenue Systems of India*, and Sir T. Morison, *Industrial Organisation of an Indian Province*. In regard to the South Indian village, Mr. T. Ramakishna says: "It will be seen that this village is a little world in itself, having a government of its own and preserving intact the traditions of the past in spite of the influences of a foreign government and a foreign civilisation. Every member of the little state of Kalembackam regularly performs the duties allotted to him, and everything works like a machine. Those that render service for the upkeep of the village constitution are paid in grain or have some lands allotted to them to be cultivated and enjoyed free of rent." (*Life in an Indian Village*, p. 83).



servants. They supply the small capital from their own savings or borrow from the village landlord or the moneylender. They are also themselves the managers, organisers, and experts of their petty farms; and they carry their produce to the market—which is held once or twice in the week—to exchange it for other commodities.

Classes
in the
village.

Besides the two classes of landlords and cultivators, there is a third class of inhabitants in the village composed of the artisans. The weaver, the blacksmith, the oilman, and the jeweller supply the needs of the small society. The petty shopkeeper performs the important function of exchanging the different products. The moneylender—who also usually combines other functions, especially those of a wholesale grain merchant or a middleman—is, by virtue of his position, a very important person in the village.

The place
of com-
petition
in village
economy.

The services of the artisans, etc., used to be, and to a small extent still are, paid for in kind. In the pure form of village economy there was very little competition¹ with the outside world, though within the village the motive of self-interest naturally prompted everybody to find the best advantage for himself. Wages and profits were, to a considerable extent, governed by custom and were comparatively fixed and inelastic. Division of labour did exist, but as division depended on the extent of the market it could not be carried very far. Labour was immobile, and what little capital there was in the village was locked up in the land. The different classes in the village were conscious of the fact that each was dependent on the others, and that the interests of each class were bound up with those of the rest. Thus there grew up a strong sense of unity and solidarity which helped to preserve the integrity of the village. The villager lived a simple, and in years of good harvest, a contented life. There was very little wealth in the village, but the evils of capitalism were also absent. The cultivator or artisan knew little of the comforts and luxuries of urban life, and did not miss them. He thought that there were things higher than those of this world, and strove to attain them

Division
of labour.

Immo-
bility of
labour.
Want of
capital.
Sense of
unity.

Life in the
village.

¹ Sir Henry Maine says, "Competition, that prodigious social force, of which the action is measured by political economy, is of relatively modern origin." (Maine, *Village Communities*).



in the way which his religion and traditions pointed out to him.

Such was the village system until recent years. But today it is hardly to be found in its entirety in any part of India. The economic conditions of the country are now undergoing a more or less complete transformation, and the village must necessarily change to keep pace with the march of events. The impact of changing-western civilisation is also working a change in the ideas and ideals of the villager, and is making it impossible for him to retain his old simplicity of life.

The rapid development of the means of communication and economic competition with the outside world have produced far-reaching effects on village life. Almost all the industries of the village are now in a decadent condition, and the loss of income due to economic dislocation has, in its turn, reacted adversely on the health and general well-being of the villagers. Efforts have for sometime past been made to reconstruct the village, but so far without any appreciable success. The gulf between urban and rural India continues to be very wide.

Effects of transition.

5. STATUS AND CUSTOM

In India, every man is born into a certain status in society and family, and the whole course of his life is determined by such status. Custom was, in the ancient days, the supreme regulator of his actions and relations in life. The influence of custom is, however, growing less every day. In India, as in every other progressive country, the movement has been and is from status¹ to contract. Yet even now it may be asserted of a considerable section of the Indian people that their actions are governed more often by custom than by free competition.² The influence of custom, however, is not necessarily harmful. In many cases it is highly beneficial, for custom often stands forth as the protector of the weak against the strong. It furnishes

Influence of custom

¹ Status may be defined as the position or standing of a man as determined, not by his own free will, but by circumstances over which he has no control. Status is opposed to contract.

² Ranade observed: "There is neither the desire nor the aptitude for free and unlimited competition, except within certain predetermined groups or grooves. Custom and state regulations are far more powerful than competition, and status more decisive in its influence than contract." (*Essays in Indian Economics*).

an alternative principle to that of unlimited competition, which, while it makes the strong stronger, has often a tendency to extinguish the weak. On the other hand, competition helps in bringing out the best in man and nature, while custom not unoften hinders such development.

on rents,

Under the Hīndu as well as the Mahomedan administration, and, to a large extent, during the early days of British rule, custom used to regulate rents. Later, however, competition tried to assert itself in the fullest measure. The government then realised that the effect of unlimited competition would be to affect injuriously the interests of the masses of the population and to entail great misery on them. They, therefore, decided to confine the operation of competition within reasonable limits ; and the main object of their rent legislation has been to secure to the tenants the rights conferred by custom. Custom thus is still, to a large extent, the foundation of rents in India. The Ricardian doctrine of rent has, practically speaking, a limited application here ; consequently, the conclusion drawn from that doctrine, namely, that rent forms no part of the price of agricultural produce, is not always applicable to the case of India.

on wages,

Custom was the chief regulator of wages in India till the middle of the last century. Nowadays, however, wages are governed more by competition than by custom. Still wages are not so elastic and responsive to changes of circumstances as in the West. The fluctuations in the rates of wages are slight,—the deviations from the usual wage levels of any particular locality are always confined within narrow limits. In the towns, owing to the ever-increasing demand for labour, competition has now established itself as the determining factor in wages, but in the countryside, especially in the remote villages, custom continues to govern the earnings of labour to a considerable extent. The economic theory that wages depend on demand and supply of labour is as true in India as elsewhere, but the law finds here a limited scope for its operation.

on prices.

Prices also used at one time to be determined, to some extent, by custom. But nowadays they almost always depend entirely upon the relations between demand and supply. It is only in parts of the country which are not easily accessible that custom is now found to exercise any considerable influence on prices.

CHAPTER V

PRODUCTION

1. GENERAL OBSERVATIONS

Of the factors of production, natural resources are, of course, of primary importance. India, as we have seen, is very rich in this respect. There is an abundance of fertile land as well as of mineral resources. The productivity of land, however, depends on rainfall, which is a very uncertain factor in the situation. Land is split up into millions of small plots, which are held by a numerous body of petty farmers. Practically all land utilised for purposes of production is subject to the payment of rent.¹

Labour is, except in industrial centres, plentiful. Wages are low; but as the workmen are ignorant and mostly unskilled, the out-turn is comparatively small. Therefore, labour can hardly be said to be cheap. Movement of labour from place to place is very inconstant, and that from occupation to occupation is irregular. Competition, when it acts, often affects the labourer injuriously. The village labourer is diligent and sober, but unenterprising and unambitious. He possesses a natural quickness of intelligence,² but education has not taught him how to put it to the right use. He is poor, and often heavily indebted. He usually works on his own account, and takes upon himself the functions of the capitalist and business manager, which he is unfit to fulfil properly. The dignity of labour is not yet fully appreciated by the higher classes of society. Division and differentiation of labour are practised to a less extent than in the West.

¹ The no-rent margin is in most countries invisible and indefinite; and the hypothesis of no-rent land is true, in practice as distinguished from theory, only in countries where there exists an active competition among the landowners and where the demand for land has not yet outstripped the supply of it. In India, although there is plenty of land lying waste in unpopulated tracts, yet in the populated parts there is hardly any productive land left unutilised.

² Sir John Strachey says: "The agricultural classes are certainly not inferior in intelligence to the peasants of many of the countries of Europe." (*India, its Administration and Progress*, p. 394.)

capital,

Indigenous capital is not only small in the country, but was, until recently, shy. Even where there is wealth, lack of enterprise often prevents the owner from investing it in profitable undertakings, for he does not fully recognise the necessity of taking risks, and has not yet acquired in an adequate measure the habit of forecasting the future..

organisa-
tion.

Business organisation, which is perhaps the most important factor in the success of modern industry, has not yet been developed in India to the extent that is desirable and necessary. Practical experience—the best school for learning business—has so far taught only a small number of persons how to manage big concerns and to discharge properly the multifarious and arduous duties of the modern entrepreneur. Industrial training and the acquisition of commercial knowledge were, until recent years, most lamentably neglected. The value of co-operation and combination is not yet fully appreciated. The number of entrepreneurs of real ability, character and enterprise is extremely limited, and the result is that many of the persons who actually engage in business fail to inspire faith and confidence which are the corner-stones of modern industrial activity.

Result.

These are the chief among the drawbacks which, in spite of the richness of natural resources, have prevented the production of wealth from proceeding at a rapid rate. The annual production of India is not at all comparable to that of any other civilised nation. The country generally is not in a prosperous condition. There are some who would go so far as to assert that the condition of the middle classes of society has decidedly become worse than before, while the poorer classes lead a precarious sort of existence from year's end to year's end.

Better
things
hoped for
in future.

This is certainly a gloomy picture. But it need not fill us with despair about the future. Strenuous and persistent efforts on the part of the people are sure to lead to a substantial improvement in the economic situation. As a matter of fact, signs are already visible of the approach of a better state of things. The defects mentioned above are not inherent in the character of the people, but are the result of circumstances which they are now endeavouring to control and modify. We already find that considerable interest is being taken in the development of industries. A new spirit of enterprise is abroad. Labour

is trying to shake off its lethargy and ignorance ; capital is overcoming its shyness ; and the people are preparing themselves for a new and vigorous industrial life.

The economic position, so far as production is concerned, may be summed up as follows: The productive capabilities of India are great. She possesses an abundance of natural resources and a plentiful supply of cheap labour ; but she lacks capital, enterprise, and organisation. The defects are, however, remediable, and, as a matter of fact, attempts are being made to remove them.

2. AGRICULTURE AND MANUFACTURE COMPARED

Before passing on to a somewhat detailed description of the agricultural and manufacturing industries of the country, it would be well to note the chief characteristics of a mainly agricultural country as compared with those of a chiefly manufacturing country. They are:

Agriculture
and
Manufacture.

Chief
features of
the two.

(a) In a mainly agricultural country competition, or rather freedom of enterprise—which is the chief feature of modern industry,—cannot have its full application. The agriculturist has to go to the land for his work ; but raw material can be brought to the manufacturer to be worked on by him.

(b) The agriculturist has to depend very largely on nature ; he has to adapt his work to the seasons. But the manufacturer is more free in this respect.

(c) Agriculture does not submit to the large-scale system to the extent that manufacture does, and much less specialisation is possible in the former than in the latter.

(d) As the produce of agriculture depends largely on factors which are beyond human control, *e.g.*, rainfall and other weather conditions, it is uncertain. In manufactures, the produce is certain.

(e) In agriculture, the law of Diminishing Returns applies with full effect. In manufactures, the influence of that law is often more than counterbalanced by the law of Increasing Returns.

(f) In agriculture, there is less scope for the use of machinery than in manufacture. Hence, the most recent advances in scientific knowledge may be utilised with greater advantage in the latter than in the former. Chemical science and electricity

may, however, conduce largely to the improvement of agriculture.

(g) In an agricultural country labour is generally immobile, because it is inconvenient and wasteful to the labourer to move from one plot of land to another; and where there is peasant proprietorship there can hardly be any movement at all. In a manufacturing country there are no obstacles to mobility of labour beyond the ordinary obstacles of the ignorance, poverty, and conservative habits of the labourers.

(h) As the operations of agriculture are few and simple, there is much less scope for the division of labour in agriculture than in manufactures.

(i) The profits of manufactures are higher than those of agriculture. As a result, when exchange transactions take place between the raw materials of one country and the manufactures of another, although both countries benefit by the exchange, the gain of the latter country is greater than that of the former.

(j) The production of wealth being larger in a manufacturing country, it is capable of supporting a more numerous population than an agricultural country.

(k) While agriculture enables a large number of people to live independently, and fosters in them self-reliance and other moral virtues, manufactures under the large-scale system tend to the destruction of the freedom of the workmen and to the loss of some of their higher qualities.

(l) Lastly, it is often said that agriculture is the primary industry, while manufacture is secondary. This distinction does not indicate the comparative importance of the one pursuit as against the other. From the world point of view, the two are equally important, although some of the most advanced nations lay greater stress on the growth of manufactures than on the improvement of agriculture.

CHAPTER VI

PRODUCTION—(Continued)

1. AGRICULTURE

AGRICULTURE is, of course, the most important industry of India. It gives employment to about two-thirds of the total population of the country, and of the rural population nearly 90 per cent. is connected with it, either directly or indirectly.

People mainly engaged in agriculture.

In a large country like India, the productivity of the land cannot but differ from place to place. We have on the one side the exceedingly fertile black cotton-soil and the alluvial land of the Gangetic Delta, and, on the other, the barren rocks of the Vindhyan hills and the sands of western Rajputana. Intermediate between these two extremes is to be found almost every possible variety of fertility. Speaking generally, however, we may say that the land is fertile in India.

Productivity of land.

Land may be classified in a variety of ways. The chief classifications adopted are those into cultivated and uncultivated; cultivable and non-cultivable; irrigable and non-irrigable; *ek-phasli* and *do-phasli*, or in other words, land which yields one crop in the year and that which gives two.

Land classified.

The actual produce of any year depends on the amount and distribution of the rainfall. The periodicity of the seasons often allows of two, and in a few cases, *e.g.*, the irrigated parts of the Madras deltas, of three, harvests in the year. Double-cropping is possible in about one-seventh of the total cultivated area of India.

Produce depends on rainfall. Harvests:

The two main harvests are the *kharif*, or the summer crop, and the *rabi*, or the winter crop. The *kharif* crops require much water for their growth, and, therefore, are sown as soon as the south-west monsoon commences, and they are reaped between September and November.

rabi and *kharif*.

The *rabi* crops, as the name implies, are less dependent on rainfall. They are usually sown in October and November, and they ripen in March and April. The conditions affecting their



The *rabi* less dependent on rainfall than *kharif*.

growth being different, the character of the two kinds of crops also differs. This difference in character, however, is specially marked in Northern India; it is less marked in West Bengal, and still less in Madras. During the period of their growth they are subject to a considerable degree of cold, which limits the choice of staples. In West Bengal and Madras, very much the same kinds of crops may be grown in summer and winter.

In the Bombay presidency, which gets almost the whole of its rainfall from the S.W. monsoon, *kharif* is the chief kind of crops. Madras grows chiefly the *rabi* crops, for it is in winter that the N.E. monsoon brings rain to the province. In Northern India the south-west monsoon rain gives the condition necessary for the growth of varied *kharif* crops, while the winter weather is well suited to the *rabi*.

Classification of crops.

Indian crops may be divided into (1) cereals, (2) pulses, (3) oil-seeds, (4) fibres, (5) dyes, (6) drugs, (7) spices, (8) table-vegetables, (9) pot-herbs, (10) fruits, (11) fodder, (12) root-crops, (13) sugar crops, and (14) miscellaneous crops. This division, however, is not strictly logical, as some of the crops fall into more than one of these classes. A brief account of the chief crops is given below, which will perhaps be found useful.

The chief crops: Rice.

Over 80 per cent. of the cultivated area is under food-crops.¹ Rice is grown in areas of heavy rainfall, as, for instance, West Bengal, Assam, the coast districts of Bombay and Madras. Not only is it far the most important crop of West Bengal, but over 31 per cent. of the cultivated area of India was under rice in 1949-50. The varieties of rice are innumerable. In West Bengal there are two main harvests: the *aus*, or early crop, and the *aman*, the later crop. The *aus* does not require as much rainfall as the *aman* does. The *aus* rice is all coarse, and is eaten by the poorer classes; but it serves as a provision against famine when there is a failure of the rains. Another variety is the *boro*, which is grown in a few districts of Bengal. The total yield of rice in India was about 33 million tons in 1936-37, the area under rice being 84½ million acres. As a result of

¹ This is the percentage based on 1949-50 figures for the Indian Union. It should be noted that the area under food grains varies from year to year. A serious effort is being made by the Government to increase the area under food crops as one of the measures to achieve self-sufficiency by 1951.



Partition the area under rice and its yield have both decreased. At present, the area under rice is estimated at 61.6 million acres, the yield being 18.86 million tons. The average yield per acre is 684 lbs. in India, the figures for Bengal and Coorg being 652 lbs. and 1,622 lbs. respectively.¹ Rice is also an important crop in Madras and Bombay. In Uttar Pradesh and Bihar, it is grown either in damp localities or with the help of irrigation. It is practically the sole crop in the Deltaic swamps.

Wheat is grown in greater or smaller quantities in every province. The great wheat-producing tracts, however, are the Uttar Pradesh, East Punjab, Bihar, the Central Provinces, and Rajputana. The conditions favourable for the growth of wheat are exactly the reverse of those of rice; consequently, we find that, broadly speaking, where rice thrives, wheat does not. Wheat is a *rabi* or winter crop, and wherever possible, it is irrigated. The area under wheat has greatly expanded with the extension of canal irrigation. Towards the end of the last century, the area under wheat was 22½ million acres, but the acreage rose to 33¼ million in 1936-37. The total yield in 1936-37 was estimated at 9.8 million tons. As a result of Partition the area under wheat and its yield have suffered diminution. At present the area under wheat is 22.3 million acres, the yield being 5.4 million tons.² India occupies the third place in the list of wheat-producing countries of the world. As regards exports, India generally comes fifth, being preceded by U.S.A., U.S.S.R., Canada, and the Argentine Republic. Indian wheat was formerly regarded as inferior in quality, but improvements in threshing and handling methods and the investigations of the Agriculture Department into the possibility of cultivating superior varieties have resulted in a considerable improvement in the quality of the Indian output.

Barley is grown to a small extent all over India, and chiefly in Uttar Pradesh. It serves as food for men as well as animals. Oats are a very minor crop in India.

¹ Estimates of the area and yield of principal crops in India, 1947-48.

² *Agricultural Situation in India*, Ministry of Agriculture, Government of India.



- Maize.** Maize is grown in most parts of India, but in the United Provinces it forms an important food-crop.
- Millets.** Millets are grown extensively in almost every part of India. There are several varieties of this crop, the chief being *juar*, *bajra*, and *ragi*, which is the staple grain-crop of Southern India. Millets are also cultivated as a fodder-crop.
- Buck-wheat.** Among cereals is also classed buckwheat, the grain of which is very nourishing. It is grown in the Darjeeling hills and also in the Central Provinces and Bihar.
- Pulses of various kinds.** Next to cereals, pulses occupy the most important place as food-grains. Various kinds of pulse-crops are grown in India; the most important of these are *arhar*, *chana*, *musuri*, *urd*, *mug*, and *kalai*. Pulse-crops thrive best in Uttar Pradesh and Bihar. Pulses also grow well in parts of West Bengal; but in the Deltaic portion of the province the quality of these crops is not very good, an excess of ordinary salt being injurious to them. Some of the varieties of pulses are used also as fodder for cattle.
- Oil-seeds.** Oil-seeds form very important crops in almost every part of India. Of the total cultivated area in India, oil-seeds account for more than 10 per cent., and the total yield is over 5 million tons.¹ There are several kinds of these, the more important among them being mustard (*rye*, *sorson*, and *tori*), linseed (*tisi*), *til*, castor (*rehri*), *sorguja* and groundnut-oil. Oil is also obtained from fruits, such as coco-nut and mahua, from various flowers, and from cotton-seeds. Of late years, coco-nuts and ground-nuts have become important articles of export and their increased production is being encouraged by the Government. Castor-seed is also important because the *eri* silk-worms are reared on its leaf.
- Coco-nut. Ground-nut.**

Linseed and linseed oil constitute important items of India's export trade. The export of ground-nuts amounted in 1949 to nearly 29,000 tons. The enormous exports of oil-seeds involve a considerable loss to the country. It is desirable, therefore, to export only the oil and to retain the cake for use as animal food

¹ This is the figure based on 1949-50 estimates. *Agricultural Situation in India*, Feb., 1950.



or manure in the country. Even oil-cakes are exported in good quantities, while the Indian cultivators suffer from the lack of cheap fertilisers.

Among the fibre-crops, jute and cotton, of course, are the **Jute.** most important. Undivided Bengal held the virtual monopoly of jute in the world. But as a result of Partition, the principal jute-growing districts of Bengal now belong to Eastern Pakistan. The Indian Union has now become the largest importer of raw jute from Pakistan. The Government is now taking various steps to increase the area and yield of jute cultivation. Jute is also grown in Bihar, Assam, Orissa, and Madras in smaller quantities. It is chiefly grown on land which is liable to be submerged in the rainy season. The conditions which are suitable for rice are, generally speaking, also suitable for jute. As a matter of fact, jute is now grown in many places where rice used to be grown before. This is a matter deserving of consideration. Jute has been for a long time a very paying cash crop to the Bengal cultivators.

The first mention of jute as an article of export was made in **Out-turn.** 1828. In 1949-50 the Indian jute crop yielded about 29 lakh bales as against 21.5 lakh bales in 1948-49. Total amount of raw jute exported from Calcutta is now 686,900 bales. Jute manufactures are exported in large quantities, constituting a large percentage of the total value of Indian exports. Exports go to all parts of the world, the largest purchaser of raw jute being the United Kingdom.

Attempts have been and are being made in several consum- **Substitutes**
ing countries, to find out workable substitutes for jute as a **for jute.**
packing material. Experiments have been made with multi-wall paper-bags, sisal, manilla hemp, *sunh*-hemp, aloe-fibre, *mesta-pat*, rosella fibre, etc. Efforts to grow jute in Central American countries and some other places are also going on. The real danger to our jute export trade is likely to come from the wide adoption of the system of bulk-handling, which seeks to do away with the use of any packing material. Up till the present these various attempts have not affected the jute trade to any considerable extent. It is, however, desirable to guard



against a possible danger, and serious efforts should be made to find out new uses of jute within the country.¹

Mesta-pat.

Two other fibre-crops allied to jute are Bombay hemp or *mesta-pat*, which is regarded by experts as even superior to jute, and *sunh-hemp*. Rhea is another important fibre-crop. Great hopes are entertained of the prospects of this industry in future. Aloe-fibre is also a useful economic product, which is grown only in tropical and sub-tropical countries.

Sunn-hemp.

Rhea.

Aloe-fibre.

Cotton.

Cotton holds a very important place among the agricultural products of India. Like jute, cotton has been the victim of Partition. As a result of Partition the area and yield of cotton crops have suffered a considerable decline. At present, the area under cotton is estimated at 10.6 million acres, the yield being 28.62 lakh bales. It can be grown more or less over almost the whole of the country. The principal cotton-growing tracts, however, are the highlands of the Deccan, the valley of the Central Provinces, the plains of Gujrat and Kathiawar, the Tinnevely, Madura, Coimbatore, and Ceded Districts of Madras, and Bihar. Cotton is of two varieties, namely, cotton-crop and tree-cotton; but there are numerous forms of the cotton-crop, and tree-cotton also is of several kinds. In the Deccan the most suitable soil for cotton is the black cotton-soil. The quality of the product is inferior to that of the United States, and the yield per acre is also less. In East Punjab experiments with American cotton have evolved an acclimatised type, which is at present confined to the Canal Colonies. "Cambodia" or "Tinnevely" cotton grows well in the red soil of the Madras Presidency. It is

Research in jute.

¹ The Bengal Jute Enquiry Committee, which reported in 1934, recommended the appointment of a Central Jute Committee. This Committee came into existence in 1936 and one of its principal duties is research (agricultural, industrial, and commercial) relating to finding of either new uses or new markets for jute. The Jute Mills Association also set up a Research Laboratory in 1937.

Scientific research on jute and its uses has been carried on at the Universities and under the Imperial Council of Agricultural Research, with the object, among others, of improving the tensile strength of jute and to produce jute nitrocellulose, which, owing to its low viscosity and higher solubility, is more useful for the lacquer industry. (*Progress of Science in India*, published by the Indian Science Congress Association, 1938, p. 75.) A Jute Research Institute has recently been started by the Indian Jute Mills Association in conjunction with the University of Calcutta.

superior to the American variety in quality and ginning output. Experts believe that cotton cultivation is capable of being greatly improved, and that "the cotton crop of India can be doubled without interfering with the growing of food supplies."¹

Although the cultivation of indigenous cottons is more remunerative to the farmer in non-irrigated tracts, the prospects of the production of long staple cottons are decidedly favourable in the following parts: East Punjab, Gujrat, Southern Madras, and the Central Provinces. After Partition, Sind and West Punjab have gone over to Pakistan, and thus India has suffered greatly in respect of the supply of a good quality of long-staple cotton. In view of the great importance of this article, an earnest effort should be made by the Government and the people to make the Indian Union self-sufficient in respect of raw cotton. It is reported that the Government of India have decided to spend about Rs. 11.5 lakhs on the "Grow More Cotton Campaign" to increase cotton production by another eight lakh bales. Further they have decided to remove all restrictions on cotton cultivation in the country. The States have been asked to provide ample facilities for irrigation and the supply of improved varieties of seed and manure. Inter-cropping of groundnuts with cotton will also be encouraged.

It is noteworthy that while India imports large quantities of cotton from abroad, she also exports more than 11% of the total amount of raw cotton produced within the country.²

¹ Report by Arno Schmidt, Secretary to the International Federation of Master Cotton Spinners' and Manufacturers' Association. In reply to Lord Morley's statement in 1910 that more cotton-growing may mean less wheat and other food-crops, Mr. Schmidt urged the following points: (1) there is a need for specialisation in Indian agriculture, and cotton, being a very remunerative crop, ought to be given the first place in suitable districts; (2) cotton may be grown in rotation with some other crop, and the most suitable rotation crops are jowar and wheat; (3) the increased production of cotton will increase the income of the people, and if the cultivator has the money he can buy food from other parts of the country.

² The percentage is based on the 1947-48 estimates (vide *Indian Cotton Textile Industry Annual*, 1949).

The Ottawa Agreement of 1932, the private agreement commonly known as the Mody-Lees Pact of 1933 and the Trade Agreement between India and Japan in 1934, all helped to increase the foreign demand for Indian short-staple cotton.

**Simul
and ak.**

The simul (silk-cotton) trees as also the common *ak* which grows wild in sandy places yield a silky fibre which can be converted into a valuable vegetable silk of fine quality.

Indigo.

Indigo was at one time one of the chief crops of India. The use of aniline dyes has, however, greatly diminished its importance. Its cultivation has now ceased in Bengal, but has been continued in small quantities in Bihar and Uttar Pradesh. The chemical dyes are inferior in quality to indigo and other vegetable dyes, and a revival of indigo is not altogether impossible.

Poppy.

Poppy cultivation is restricted mainly to Bihar and districts of Uttar Pradesh north of the Ganges. In India it is conducted on behalf of the government, and, in pursuance of an agreement with China, the area of cultivation has now been greatly reduced. Poppy is also cultivated in some of the Native States of Rajputana and Central India. It is a *rabi* crop.

Tobacco.

The total quantity of tobacco grown in India is large. It is grown in many districts; but the chief places of production are Tirhut in Bihar and certain districts of Madras.

Tea.

The chief tea-growing tracts are Assam, Darjeeling and Jalpaiguri districts of West Bengal, the Nilgiri in Madras, Dehra-Dun in U.P. and the Kangra valley in the East Punjab. The total area planted has been estimated at $7\frac{3}{4}$ lakh acres and the total production at 56 crore lbs.¹ Of the total production of tea in India, more than 70% is exported and there is room for further expansion. The exports in 1948 came upto 376.5 million tons. The U.K. is the largest of the customers for Indian tea, taking more than 80 p.c. of our total exports.

**Restriction
scheme.**

A new step resorted to in recent years is the restriction scheme under the International Tea Agreement. Prior to the conclusion of the Agreement in 1933 the tea industry had been faced with a burdensome surplus through over-production, resulting in mounting stocks and low and declining prices. This situation was accentuated by the depression of 1929-33. To meet this situation the tea-growers of the principal producing countries got together and evolved a scheme for regulated production and exports. The exports of tea from the participating countries were restricted, and the extension of existing tea areas was

¹ Estimate for 1947.



prohibited. This had the effect of securing an immediate increase in prices from the uneconomic levels then prevailing. This International Tea Agreement first concluded in 1933 has been renewed, with minor variations, from time to time, *i.e.*, in 1938, 1943 and 1948. As the last Agreement was to expire in March 1950, the International Tea Committee has suggested the continuance of the Agreement up to March 1955 and the proposal is under consideration by the Indian Parliament.

Attempts are being made by the Tea Market Expansion Board¹ to popularise the consumption of Indian tea. The recent prohibition measures, *e.g.*, in the Salem district in Madras, have given opportunities to the Board to push the sale of tea in the Indian market.

Tea
Market
Expansion
Board.

The cultivation of coffee is confined wholly to Southern India. It has to face acute competition from Brazil and Ceylon. The estimate for 1947-48 places the production figure for coffee at nearly 34 million lbs. The Coffee Cess Act of 1935 provided for the constitution of a Committee for expanding the market for Indian coffee. Subsequently an Indian Coffee Board was constituted under the Coffee Market Expansion Act, 1942, to control the marketing and export of coffee. With a view to earning foreign exchange every effort has been made by the Board in recent years to step up the export of coffee.

Coffee.

The two main centres of the cultivation of cinchona are Darjeeling and the Nilgiri hills. It is a government monopoly. The quantity of the article produced in the country is insufficient, and it is necessary that an expansion of cultivation should be undertaken without delay.

Cinchona.

Of table vegetables a large variety is found in India. The most common and important is potato. It is usually grown after *aus* paddy or jute ; in tracts of the country where potato is the principal crop, it often forms the only crop of the year. Deep cultivation is essential for the growth of the crop. The other common vegetables are *palvals*, *brinjals*, cabbages, cauliflowers, tomatoes, and turnips. Akin to potatoes is cassava or sweet potato called *simulalu* or *sarkarkanda* of which there are several varieties ; some are red, some white. This vegetable sometimes

Table-
vegetables.

¹ The Board is financed by a small cess levied on the exports of tea from India.

serves as the chief food during a famine. It resists drought and yields a nourishing and palatable food. A more extended cultivation of this and other drought-resisting articles is desirable as a protection against famine and shortage of food supply.

Fruits.

Nowhere, perhaps, in the world can a larger variety of fruits be found than in India. The cultivation of fruits is not, however, undertaken according to proper scientific methods. If that is done, the quality of the fruits is sure to be improved and the yield greatly increased. New fruits suited to the conditions of the climate and the soil ought also to be introduced. India is capable not only of supplying herself abundantly with fruits, but also of carrying on a lucrative trade with other countries.

The Government of India some time ago launched a fruit research scheme at the Experimental Station at Sabour in Bihar; but it does not seem to have made substantial progress. The future of the export trade in mangoes and other fruits seems to be promising and, if resort can be had to better methods of preservation and transport, we may expect an enormous expansion in the Indian fruit trade.

Sugar.

Sugar-cane is indigenous in India. It had at one time a pre-eminent position in respect of acreage and yield. Sugar was for a long time a flourishing industry. The first check to the growth of the cane-sugar industry came from the development of beet-root sugar on the European continent. The immense development of the sugar industry in Java on up-to-date lines caused a further decline in the Indian sugar industry. In the years following the First World War, India became increasingly dependent on Java for the refined sugar required for domestic consumption. The Indian Sugar Committee of 1919-21 examined the problem carefully and recommended the adoption in India of the system of organisation prevailing in the Java sugar industry. An active step was taken by the government when a research station for investigating sugar-cane genetics was started at Coimbatore. The real impetus to the sugar industry and consequently to the cultivation of sugar-cane was, however, given by the fairly heavy protection granted to sugar in 1932 on the recommendation of the Tariff Board. As a result of these measures there was a phenomenal expansion in the sugar industry, so much so that India on the eve of



World War II was almost self-sufficient with regard to her requirements of sugar.¹ During the Second World War control was exercised by the Government over the supply as well as the price of this article while the provincial governments concerned not only fixed the price of sugar-cane, but also sought to derive financial benefit from the manufacture of sugar by various means including the levy of duties. Recent expansion.

This development of sugar manufacturing industry has markedly influenced the cultivation of sugar-cane. The average annual production of sugar-cane stood at 58 lakh tons in 1948-49. The area under sugar-cane was 36½ lakh acres in that year.

More than 2½ million acres have been brought under the improved varieties of cane.² The Governments of Uttar Pradesh and Bihar have taken steps to control the production and sale of sugar and to fix minimum prices for sugar-cane from time to time. The whole position relating to the sugar industry was investigated by the Tariff Board early in 1950, and it recommended against the continuance of protection to the industry.

The best cane is grown in Bengal, the U. P. and in some districts of Bihar. Palm-sugar is manufactured either from the juice of the ordinary palm or of that of the date-palm. The date-sugar industry of Bengal, which is now languishing, is capable of being made profitable, as the yield is certain and very little expense has to be incurred for cultivation.

¹ The total import of sugar came down from 9½ lakh tons in 1929-30 to 14 thousand tons in 1947-48. The total production of sugar amounted to 12 lakh tons in 1949-50.

On a comparison of the sucrose content of cane in India with that of cane in Natal, Mauritius, Java, and Hawaii, it is found to be 1.5-1 and the purity of the juice 6.5 points lower, while the fibre content is about equal to Natal and 2.3 points higher than elsewhere. "These disparities are significant, as they clearly show the handicap India is suffering in respect to cane, which, after all, is the basic factor in the economic production of sugar." (*Capital*, Jubilee Number, November, 1938.)

² Yields of cane, of course, differ widely, starting from the north-west in the dry tracts of the East Punjab, where frost is not rare, proceeding south-east to the U. P. and Bihar, we may take the average yield of ryot cane to range from 300 to 400 maunds per acre. "Where cane is grown by factories under expert supervision the yield is about doubled. In Bengal and Southern India heavier yields are obtained by intensive cultivation under climatic advantages." The average yield for South Africa was about 500 maunds and for Java 1,520 maunds. (*Capital*, Jubilee Number, November, 1938.)

**Spices.**

Although spices of various kinds are grown in different parts of the country, the total production is not sufficient to meet the local demand. A great extension of their cultivation is needed.

Lac.

Among the miscellaneous crops the more important are lac and rubber. Lac is a resinous incrustation formed on the twigs of certain trees. Assam, and the forest tracts of the Central Provinces, Bihar and Chota Nagpur are the chief sources of its supply. The importance of lac as an export-commodity is increasing steadily. Besides India the only other important lac-producing countries in the world are Siam and Indo-China. The production of these two latter countries is insignificant, and India enjoys a practical monopoly in the trade. The Indian Lac Cess Committee constituted in 1930 controls the industry and encourages research on the ways of refining and utilising lac.

Rubber.

The importance of rubber as an economic product is being recognised more and more widely every day, owing to the numerous technical purposes for which it is utilised. In India its principal source of supply is the Malabar coast. At present the area under rubber cultivation in India stands, roughly, at nearly 16 crore acres. The Indian Union produces about 16,500 tons of rubber a year which is a little more than one per cent of the world production. She imports every year a large amount of rubber goods, particularly tubes and tyres for motor vehicles, and there seems to exist a good possibility for the development of rubber manufacturing in India.

In 1947 the Indian Rubber Board was established for promoting the development of the rubber industry as regards production and marketing. At present the Board is considering a scheme for making India self-sufficient in raw rubber.

Seri-culture.

Sericulture was once a profitable industry, but towards the middle of the last century it declined. The decay of sericulture in India has been attributed to the following causes: (a) low price obtained for the product due to foreign competition, (b) high rent of mulberry land, (c) degeneration of the silk-worm, and (d) disease.

Sources of supply.

The main sources of mulberry silk in India are Mysore, Coimbatore in Madras, Kashmir, certain districts (Malda, Murshidabad, and Birbhum) of West Bengal and a few scattered areas in

Assam and East Punjab. Besides mulberry silk, which constitutes the larger part of the total production, *tasar* is produced in Bihar, the Central Provinces, some districts of West Bengal and Uttar Pradesh; *muga* is produced in Assam, and *eri* in West Bengal, Assam, Bihar, Orissa, and Madras. In West Bengal and in the Mysore State valuable experimental work was done some years ago under the supervision of experts, as a result of which the area of land under mulberry cultivation has substantially increased. In Kashmir the silk industry is a State monopoly.

In the whole of India more than a million persons depend on ^{Silk} silkworm rearing. India consumes about 40,00,000 lbs. of raw ^{industry.} silk and produces half of it. Mysore produced an estimated quantity of 14,00,000 lbs. of raw silk with an acreage of 75,000 in 1948. As compared with the pre-war (1939-40) period, both imports and exports of silk have declined.

The manufacturing industry in silk is mainly confined to hand-loom weavers, and the chief centres are Amritsar and Jullundar in East Punjab, Benares and Shahjahanpur in U.P., Murshidabad, Malda, Bankura and Bishnupur in West Bengal, Nagpur in the Central Provinces, Bhagalpur in Bihar, and many other scattered areas in Bombay, Mysore, Madras, and Kashmir. Most elaborate patterns are worked out with the aid of dobbies and jacquard harness, and the beautiful silk brocades known as Kincobs liberally interspersed with metallic threads for which Benares and Madura are famous, command appreciation even in the west.

The Indian Tariff Board enquired into the conditions of the industry in 1933, and on the basis of their recommendations protective duties were imposed in May 1934 on imported silk and silk manufactures. These duties expired in 1939. In 1940, protection was again extended for a period of two years. Recently the Tariff Board enquired into the question of the continuance of protection to the silk industry and decided in favour of its continuance. Accordingly the protective duty on raw silk was substantially raised in 1949.

If adequate steps are taken to revive it, the silk industry may flourish once again and may not only meet the local demand but also prove a valuable dollar-earner.

Fodder-crops.

The crops most largely used as fodder-crops are *juar*, *bajra*, and *ragi*. In East Punjab and Bihar *juar* is largely cultivated as a fodder-crop. It is also grown in some parts of Bombay. In Madras *ragi* mostly takes the place of *juar*. Sugar-cane, as a fodder-crop, is used principally by the planters in Bihar. Grams, oats, barley, turnips, and prickly pears are grown in different parts of the country as fodder-crops. Some kinds of trees are frequently very valuable as supplying fodder for cattle. Very little, however, is known of the comparative feeding values of Indian fodders. It is needless to say that the cultivation of fodder-crops is very necessary for the improvement of cattle.

Agricultural statistics.

Accurate and reliable statistics regarding the agricultural produce of India are not available. But the following figures¹ will give the reader approximate ideas:

Area under food-crops.				Area (000, acres)	Yield (000, tons)
	Rice	...	...	60,480	18,863
	Wheat	...	...	21,165	5,414
	Juar	...	...	35,388	4,788
	Bajra	...	...	19,604	2,247
	Maize	...	...	7,462	1,762
	Barley	...	...	7,640	2,266
	Ragi	...	...	5,095	1,350
	Gram	...	...	19,711	4,563
	Sugar-cane	...	...	3,645	4,894
	Groundnut	...	...	9,078	3,073
	Sesamum	...	...	3,567	295
	Rape and Mustard	...	...	4,453	726
	Linseed	...	...	3,877	439
	Cotton	...	...	11,055	2,862 bales
	Jute	...	...	6,460	2,900 bales

Dairy-farming.

Dairy-farming is more akin to agriculture than to manufacture, and can be profitably practised in association with the former. It ought to be a flourishing industry in India, but unfortunately is now in a languid state. The reason is to be found in the uneconomical method of work, the neglect of hygiene and breed of cattle, and the want of pasture lands. The supply of milk and

¹ Figures are for the year 1948-49. *Abstract of Agricultural Statistics*, Ministry of Agriculture.

its products, such as butter, *ghee*, *matha*, etc., has greatly diminished in relation to the demand. The best efforts of the people should be directed towards an industry which would supply them with the best and most nutritious kind of food. For this purpose, the improvement of cattle and an increase of grazing fields are absolutely essential. The extension of dairy-farming on co-operative lines should be carefully examined. The problem of milk supply in cities has assumed an acute form, and it is high time that the municipalities of India should move in this direction. It may be mentioned that some State Governments have recently been awakened to the urgent necessity of solving the milk problem and are contemplating various steps to be taken in this regard. The West Bengal Government has recently started a dairy farm with a large capital outlay at Haringhata, the progress of which will be watched with keen interest. Cattle breeding and the importation of good cattle from abroad should engage the immediate attention of the Central and State Governments.

Good cattle is necessary for agricultural purposes as well as for the milk supply of the country. Unfortunately, adequate steps have not so far been taken to improve the cattle wealth of India. Apart from the efforts of the Imperial Council of Agricultural Research, some impetus was given to problems of breeding and improvement of cattle by Lord Linlithgow, who was the Chairman of the Royal Commission of Agriculture in India, and subsequently the Governor General.

Arboriculture is a science akin to agriculture, though trees can hardly be classed as agricultural crops. The forests in India are mostly under State control. They are classified, for departmental purposes, into (i) reserved, (ii) protected, and (iii) unclassified or public forest land.¹

Arboriculture.

¹ Geographically, the forests in India are divided into six classes. The *evergreen* forests are found in the West Coast of India, in the Andamans, and in the sub-Himalayan tracts to the east. They contain various kinds of large trees. The *deciduous* forests occur in parts where there is a sufficient rainfall; teak and sal are the most important kinds of timber. The *dry* forests are found chiefly in East Punjab and Central India. The *Alpine* forests are in the Himalayas, where deodar, cedar, pine, oak, and other trees grow. The best example of *tidal* forests is the Sunderban in Bengal. The *riparian* forests occur in East Punjab and in a few other parts of India.

Afforestation.

India is capable of growing various kinds of trees. They grow naturally in places where there is an abundant rainfall; but they can be grown everywhere,—even in the arid tracts. At one time almost the whole country of India was covered with trees. In the first half of the nineteenth century, however, the matter was badly neglected, and many parts of the country were denuded of forests. The serious effects of disforestation were realised in the latter half of the nineteenth century. It would certainly have been disastrous to the national interests of India if the future development of her natural resources had been entirely sacrificed to the immediate interest of the present generation. But a policy of systematic conservation of forests has now been adopted.

Beneficial influence of forests.

The propagation of trees which yield fruits, starch, oil, sugar, vegetables, and fibres is of vast importance to a country where a failure of agricultural crops through drought or inundation is of frequent occurrence. The Forest Research Institute at Dehra-Dun is engaged in exploring the possibilities of development of India's forest products. Lac, tanning materials, essential oils, turpentine, and resin have established themselves firmly in the markets of the world. But apart from their invaluable uses for food, fodder, and timber, trees are highly useful for their influence on climate and rainfall. The presence of trees reduces the temperature of the atmosphere, while radiation is hindered at night. Trees thus produce the effect of equalising temperature; and by keeping the atmosphere moist they induce the fall of rain.¹ Beneath the shade of trees a rich layer of humus is formed which keeps the roots cool in summer and warm in winter, besides absorbing and retaining a great quantity of water. It is in this way that trees sometimes change the character of the poorest soils permanently for the better. Further, they prevent the soil from being washed away or denuded by rain. Trees also act as a most valuable fertilising agency of surface soils by bringing up food materials from the depth of the land and storing them in leaves which afterwards

¹ This has been proved by experiment. For instance, in the Delta of the Nile, since the planting of trees the average number of rainy days in the year has increased from 6 to 40. In India many fertile parts of the country have become sterile since the destruction of forests (N. G. Mukherji, *Handbook of Indian Agriculture*).

fall and get mixed up with the soils. Lastly, they serve as break-winds in localities where high winds are an objection. It is essential, therefore, that by improvements in the method of culture, by the adoption of better methods of administration, by the development of new uses and markets, and by greater attention to minor forest products, the forests of India should be made a very important source of her national income.²

The importance of forests is now being recognised everywhere. A *Vana-mahotsava* was celebrated throughout India in August, 1950, and it is believed that many lakhs of trees were planted on the occasion. If such celebrations take place every year and trees, particularly fruit-bearing trees, are planted along roads, rivers, canals, railway lines and in other suitable places through the length and breadth of the country, the problem of drought would be largely solved and food-supply would be considerably augmented.

Pisciculture is analogous to agriculture. Fish is valuable as human food and also as manure for agricultural purposes. Fisheries afford employment to a considerable number of men ; but the industry is carried on in a very inefficient manner, and can hardly be said to be a prosperous one. If proper methods be adopted, India, with her innumerable rivers, streams, and tanks, as well as her extensive sea-board, can have a plentiful supply of fish. Pisci-culture.

The Madras Government was the first to evince an interest in pisciculture nearly three decades ago. Recently, other State Governments seem to have become alive to the need for developing fishery resources. The Bombay Government are framing a scheme for increasing fish supplies throughout the province. Early in 1950 the Government of West Bengal invited a Danish Fishery expert to explore the possibilities of foreshore and deep-sea fishing on the coasts of West Bengal and Orissa. The expert is hopeful about the project, and the Orissa Government have agreed to a joint endeavour with the West Bengal

² The main purpose for which forest administration has been instituted is to secure a conservation of our natural resources for future generations. But State control is often exercised without any definite or clear-cut object in view. It will be a wise policy for our governments to adopt the recommendations of the Royal Agricultural Commission in this regard.



Government for developing fisheries in these areas. The Government of India also invited expert opinion on the question. There should not be any delay in undertaking adequate measures of a practical character.

In India, as we have seen, the land is split up into millions of small holdings. Consequently, agriculture is practised on a small scale. As has been rightly observed, "the average size of the holding in Assam and Bengal, and specially Eastern Bengal, is so small that the cultivation of it is hardly ever too much for the owner himself to accomplish."¹ The same conditions are found in other tracts. Cultivation is almost always extensive; it is only in exceptional instances intensive. It is practised in the different provinces with an infinite variety of detail, according to the varying conditions. The Deltaic swamps of a part of West Bengal, the dry uplands of the Carnatic, the black-soil plains of the Deccan, the strong clays of East Punjab, and the desert of Rajputana require separate modes of cultivation. The Indian peasant is ignorant, and consequently the method of cultivation is unscientific; but practice and the inherited experience of generations have taught him the value of a rotation of crops and the use of fallows. He knows what crops are suitable to a particular soil. He sows and reaps at the right times. He is assiduous and does his best to get the largest return from his field. But his poverty often prevents him from properly manuring his land,² or selecting good seeds, or leaving his land fallow for a season. The implements used are of the simplest kind, and improved varieties needed for better cultivation are beyond his reach.

Considering the circumstances of the peasant and the conditions of Indian agriculture, it may be said that, on the whole, the peasant is efficient. What the peasant primarily wants is more capital. With greater capital he would be able to spend more on manures, he would purchase better cattle and feed them properly, and he would be able to supply his land with the required amount of water. The peasant also lacks a

Method of
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efficient.
Agricul-
tural
assiduous,
possesses
inherited
experi-
ence, but
is poor.

Chief
want—
capital.

¹ *Census Report of India*, 1931, vol. i, p. 246.

² Social prejudices also sometimes stand in the way of the utilisation of certain kinds of cheap manure, such as night-soil and drain sweepings, which are thrown away to the great detriment of the soil.

knowledge of improved methods of cultivation, and, to remedy this defect, agricultural education of the simplest sort is necessary.

As agriculture is the chief industry of the country, and as the success of other industries depends on the supply of raw materials, the improvement of agriculture ought to engage the serious attention of every well-wisher of India. Various suggestions have been made from time to time for the improvement of Indian agriculture. Some of these suggestions, however, have come from men who have not taken fully into consideration the circumstances of the cultivator and the conditions under which he has to work. The scientific method of cultivation involves large tracts of land, deep ploughing, perfect irrigation, good manuring, and proper rotation of crops; and thus necessitates the expenditure of a large amount of capital which is beyond the means of the ordinary cultivator. There is a good deal of truth in the remark made long ago by an Indian newspaper, which said: "The cultivators have nothing to learn so far as unscientific agriculture is concerned, and the adoption of scientific agriculture is wholly beyond his means."

Improve-
ment of
agri-
culture.
Sugges-
tions must
be prac-
tical.

There is, however, much room for improvement even under the present conditions; and it is believed that the introduction of improvements into the existing methods of cultivation will increase the yield of fields by about 15 to 20 per cent.¹ Co-operation among farmers may go a long way towards solving some of the problems and removing many of their difficulties. For instance, the farmers may combine to purchase improved implements for their common use, or they may join together in constructing wells for supplying water to their fields, or they may leave common pasture-land for the grazing of cattle. The Co-operative Societies, if properly worked, may be of immense help to the agriculturists.

Much
room for
improve-
ment
under pre-
sent con-
ditions.

Scientific experiments, carried out with a full regard to the circumstances of the country, will undoubtedly prove useful in many ways. Agricultural fairs and shows may be of much use

¹ F. Smith, formerly Director of Agriculture, Bengal, believed that the average yields per acre of all crops except jute could be doubled, while that of jute could be increased 70 per cent. He thought that by education and the application of science to agriculture, the annual national income could easily be doubled.



to cultivators by demonstrating the advantages of improved implements and of good seeds and suitable manure.

The peasant not hopelessly conservative.

Some agricultural experts despair of the improvement of agriculture because they have taken the Indian peasant to be "a living emblem of inertia." But, in reality, the peasant is not so conservative as he is often supposed to be.¹ He is not quite unwilling to adopt improved methods, but these must be shown to be capable of giving better results. In order to induce the peasant to adopt improved methods, the experts must prove, not on paper, but by actual farming, that these are paying and are suitable to the conditions under which the cultivator lives.² As D. L. Roy observed nearly half a century ago, "the neatness of the costly and heavy Sibpur plough, the scientific value of artificial manure, the sleek appearance of well-fed cattle have attractions of their own for the amateur; but to the practical agriculturist, the balance of profit is of more importance and far more tempting."³ "The introduction of Cambodia cotton into the Madras Presidency," wrote the Director of Agriculture, Madras, "is perhaps one of the most striking instances in India of how readily the ryot will take up a new cultivation, if once he is satisfied that it pays him to do so."⁴

Dr. Voelcker's suggestions.

In 1889, the Government appointed Dr. Voelcker to make enquiries into the condition of Indian agriculture, and to suggest possible improvements. He submitted his excellent report in 1893. In his report he recommended the adoption of certain measures, which may be summarised as follows: (1) the spread

¹ *Vide Voelcker, Improvement of Indian Agriculture.*

² The scientific system of agriculture is feasible only if undertaken by capitalist-farmers who can afford to commence farming on a large scale. For the scientific method of cultivation, at least a hundred acres (300 bighas) of land is necessary. The advantages of scientific agriculture are:—the provision of sufficient water, good manure, selection of good seeds, greater division of labour, the opportunity of raising particular crops according to the suitability of each plot of land, greater rotation of crops, and larger scope for experiments. With these advantages may be compared those possessed by the farmer who works on his own account, *viz.*, the intense interest taken by the cultivator in his work, the spirit of independence and of self-reliance and other moral qualities which the system fosters, as also the social influence which it confers on the possessor of land. It should, further, be considered in this connection, whether or not small-scale cultivation is well-adapted to the land-tenure system and the social environment of the country.

³ D. L. Roy, *Crops of Bengal*, p. 8.

⁴ *Agricultural Journal of India*, vol. iv, pt. 4.

of general and agricultural education, and the preparation of suitable text-books in the vernaculars for the purpose; (2) the extension of canals and other means of irrigation to tracts where they are required; (3) the more energetic working and popularising of the system of *taccavi* advances for well-digging and similar purposes; (4) the institution by Agricultural Departments of organised enquiry to ascertain the irrigation requirements of each district; (5) the creation of reserves of wood and fodder (called "Fuel and Fodder Reserves"), the planting of trees along canal banks and railway lines, and the further encouragement of arboriculture; (6) the continuation and extension of experimental research aided by chemical science in reference to new crops, methods of cultivation, manures, etc.; (7) the trial of new implements at Government experimental farms and the distribution of approved implements among the cultivators; (8) the distribution of seed from agricultural farms; (9) the location of stud bulls at Government farms, and the encouragement of improved breeding of cattle.¹ Some of these valuable suggestions have been carried out in practice, but much still remains to be done.

The extension of the different modes of irrigation which have recently been taken in hand are likely to increase the area under cultivation and thus add to the agricultural wealth of the country. The Government should actively encourage the adoption of such dry-farming methods as have been found useful by experiment. A bulletin of the United States Department of Agriculture says that dry-farming consists not only in raising crops in regions of moderate but uncertain rainfall by collecting and preserving all the moisture obtainable, but also in raising certain kinds of crops in districts where the rainfall is altogether deficient.

Irrigation and dry-farming.

Undoubtedly, agricultural education² is essential for the improvement of the condition of the agriculturist. But agricultural education must be preceded by general education. The Government imparts instruction in the science and the practice

Agricultural education.

¹ *Vide* Dr. Voelcker, *Improvement of Indian Agriculture*.

² Germany established long ago agricultural colleges and schools all over the country, and, as the result of agricultural education, achieved marvellous results in improving agriculture.



of agriculture in a number of agricultural colleges and schools in some of the States. But the kind of education which is at present imparted in these institutions hardly leads to much practical result. An eminent lecturer in an agricultural college once remarked: "Neither the farm-labourer, nor the farmer, nor the landed proprietor cares, as a rule, for agricultural education." These institutions are meant for educated men, but it is a pity that the passed students, instead of starting the business of farming on their own account, generally try to secure service under the Government. To be really useful, agricultural training should consist of two parts,—a higher and a lower; the first for turning out experts and organisers, and the second for assisting actual cultivators in their work. There has lately been a change in the policy of agricultural education in India in some of the provinces, where school education in agriculture is making some progress.

Agriculture Commission.

In 1926, a Royal Commission was appointed under the chairmanship of Lord Linlithgow to make an exhaustive enquiry into the problems of Indian agriculture. The Commission published a valuable report in 1928, containing a comprehensive study of almost all problems connected with Indian agriculture. Their recommendations covered a very wide range, including problems relating to animal husbandry, irrigation, forests, education, communications, financing of agriculture, rural industries, and horticulture.

Imperial Council of Agricultural Research.

The Government did not take active steps to implement many of these recommendations. But two of their important recommendations considerably influenced the subsequent activities of the Government and public bodies. First, the Commission had strongly emphasised the need for a co-ordination of agricultural research under a central organisation. The Government of India called a conference in October, 1928, and adopted a scheme for the establishment of the Imperial Council of Agricultural Research. This Council has been in existence for over twenty years and during this period it has helped and organised research and has also acted as a bureau of information relating to all agricultural investigation.¹ A further step in the direction of

¹ Broadly speaking, almost every branch of agriculture has been the subject of investigation. In plant-breeding, valuable work has been done



organising research has been the establishment of the Central Jute Committee. The Pusa Institute, now removed to New Delhi, is the principal seat of agricultural research in India.

✓ The second important contribution of the Royal Agricultural Commission was the emphasis laid on a better organisation of the marketing of agricultural produce. In view of the well-known fact that our cultivators do not get a proper price for their output, partly on account of their ignorance and poverty, and partly on account of the existence of a long chain of middlemen between the cultivators and the wholesale markets, and also in view of the limited success attained in the experiments in establishing co-operative sale societies, the Commission recommended, first, the development of means of communication, secondly, the establishment of regulated markets under the control of the local market committees and subject to the supervision of the Government and local bodies, and thirdly, the standardisation of weights and measures. Marketing
organisa-
tion.

✓ In Berar and Bombay regulated markets had been established before the Royal Commission published their Report. In Bengal, the Jute Enquiry Committee of 1933 endorsed the recommendation of the Royal Commission on Agriculture for the establishment of properly regulated markets for jute. Together with these, suitable measures for the grading of agricultural produce, for affording warehousing facilities, and for granting financial accommodation to cultivators on the lines of the British Agricultural Marketing Act of 1931, should be undertaken in order to introduce a satisfactory system of marketing. A marketing survey was later conducted by a Special Marketing Officer, with the collaboration of officers in the States of the Indian Union in regard to certain selected crops.

in respect of wheat, cotton, rice, and sugar cane. Mycological investigations have resulted in numerous findings about the fungal and virus diseases of plants. Enquiries have also been extended to the nature and method of eradication of insect pests, by the Locust Research Entomologist and his staff. The other lines of research include soil fertility, soil-micro-biology, plant physiology and biochemistry, fruit culture and fodder-crops. In agricultural engineering, considerable work has been done in devising new types of tools and implements. See *Progress of Science in India*, published by the Indian Science Congress Association, May 1938, chap. vi (by Dr. W. Burns).

Conclud-
ing
remarks.

In concluding their report the Royal Commission observed: "The aim of the suggestions and recommendations we have made in the preceding chapters has been to bring about greater efficiency throughout the whole field of agricultural production and to render the business of farming more profitable to the cultivator. Throughout our report, we have endeavoured to make plain our conviction that no substantial improvement in agriculture can be effected unless the cultivator has the will to achieve a better standard of living and the capacity, in terms of mental equipment and of physical health, to take advantage of the opportunities which science, wise laws, and good administration may place at his disposal. Of all the factors making for prosperous agriculture, by far the most important is the outlook of the peasant himself. . . .

"If the inertia of centuries is to be overcome, it is essential that all the resources at the disposal of the state should be brought to bear on the problem of rural uplift. What is required is an organised and sustained effort by all those departments whose activities touch the lives and the surroundings of the rural population."¹

The Russel-Wright Committee, appointed by the Government of India in 1936, made valuable suggestions regarding the promotion of agricultural research, control of insect pests, improvement of cattle and dairy farming, etc. The Government gave effect to most of their recommendations, and Agricultural Colleges and Research Institutes were established in different parts of the country.

The Second World War had far-reaching effects upon the agricultural situation in India. The first reaction of the war was adverse to agriculture. But on the fall of Burma, agricultural prices, particularly the price of food-grains, began to rise alarmingly, and the Government had to appoint a Food Grains Policy Committee under the chairmanship of Dr. Gregory to advise them on the methods of tackling the crisis. Prohibition of export of food-grains, control over procurement and distribution, the introduction of rationing and the intensification of the "Grow More Food Campaign"—were some of the principal recommendations of the Gregory Committee.

¹ *Royal Commission on Agriculture in India, Abridged Report, p. 89.*

But a disaster came in the shape of the Great Bengal Famine of 1943. The fall of Burma, the Denial Policy pursued by the military authorities, and the excessive rise in prices were some of the factors that contributed to the outbreak of the famine. The famine took a toll of several millions of human lives. But even when the acute famine conditions were over, food deficit continued. To meet the situation the Government adopted a Five-Year Food Import Policy in 1948. But soon the Government realised the blunder involved in this policy and announced early in 1949 a Three-Year Food Sufficiency policy. A food drive has for the last three years been launched throughout the country, but without much tangible result. Thus the food situation still continues to be very serious.

2. MINING

Akin to agriculture is the mining industry, for both of these Mining. are concerned with the raising of raw materials from the earth. As we have already seen, India is very rich in minerals almost of very kind;¹ and there is hardly anything which she cannot produce if only capital, enterprise, and technical knowledge are forthcoming.

The decay of the ancient metallurgical and chemical industries injuriously affected mining in India. It resulted in the almost exclusive development of those minerals which could be consumed by direct processes on the spot, or which, on account of their abundance and cheapness, were suitable for export in a raw state. Nevertheless, during the past few decades conditions have been rapidly developing in India for the successful revival along modern lines of industries dependent on the ores and minerals. Revival of mining.

In fact, a revival in recent years has occurred in the output of minerals after a fairly long period of depression. The average annual value of mineral production in India during the quinquennium 1913-23 was 32·8 crores, but this average came down to Rs. 23·8 crores during 1929-32.² In 1940 the value of production rose to Rs. 56 crores. The total value of minerals Total mineral production.

¹ This is the view held by Sir Thomas Holland, formerly Director of the Geological Survey of India.

² J. Coggin Brown, *India's Mineral Wealth*, Oxford, 1936.



produced in the Indian Union was roughly estimated at Rs. 60 crores in 1947.

Coal.

Coal is the most important of India's minerals, the total output being a little over 30 million tons and the value being Rs. 43 $\frac{3}{4}$ crores in 1947.¹ The coal workings in India are still rather shallow, only one shaft having been sunk to a greater depth than 800 feet. Coal is very unevenly distributed over India. Its production is concentrated in what is known as the "Bengal Coal Fields," though by far the largest portion of the total output is now contributed by the mines in Chota Nagpur. The coal raised in the province of West Bengal comes from the Ranigunj coal-field situated in the Burdwan district. The first working of this field dates from 1820. The Jharia coal-field is situated in the districts of Manbhum and Hazaribagh in Chota Nagpur. There are important fields in Assam, but the distance of the Assamese coal-fields from the leading industrial centres and the seaports of India prohibits greater use of these high-class coals, of which large reserves exist. The other coal-fields are to be found in the Central Provinces, East Punjab and Rajputana, but they are small both in size and output. The coal-fields of India belong to the Gondwana Age. They almost invariably follow the river valleys, and to a great extent are basin-shaped.

Low
output.

The most important drawback of the Indian coal industry is its low output. "In no country in the world," it was observed in the *Report of the Indian Coal Committee*, "which has a coal industry of any size, is the output per head per annum so low as it is in India."² This is attributed to the inefficiency of the Indian labourer who is primarily an agriculturist and casually a coal-miner. He is an unskilled worker.

Coal
Grading
Board.

For a long time the Indian coal industry had been crying for protection, particularly against the cheap South African imports. The Legislative Assembly recommended a countervailing duty on South African coal in 1924. The Indian Coal Committee of 1924 made valuable recommendations, of which that for establishing a Coal Grading Board was adopted and given effect to by

¹ In the beginning of the present century the average production of coal was only 7 $\frac{1}{2}$ million tons. *Indian Minerals* (Geological Survey of India), July 1949.

² *Report of the Indian Coal Committee*, 1924, p. 38.

the Government. The question of protection was referred to the Tariff Board in 1926 which did not recommend protection. The demand for protection was repeated by the Associated Chambers of Commerce in 1935. But the Government of India refused to grant any protection. Protection refused.

Coal output is the dominating factor in competitive industry, and its importance will be more and more realised as the country advances as a manufacturing producer.¹ "The possession of native coal," wrote an eminent expert, "means the possession of power. It means that the nation is gifted by nature with magnificent stores of energy which can be liberated to work the wonderful machines which men have invented—which can be expressed at will either as light or as heat or as electricity."

When it is remembered that India's reserves of all kinds of coal, most of which can be, and has been, used for steam-raising, are about 50,000 million tons, it becomes evident that there is a necessity for the conservation of better quality coals. And in recent years there has been an insistent demand from economists and others for such conservation.

The value of the Indian gold output was about 4·90 crores. Gold. The Kolar gold fields of Mysore produce almost the whole of the total output.

The attention of European prospectors was directed to this field by the numerous old indigenous workings. During the early eighties a large number of companies was floated with extravagant hopes, but by 1885 they became moribund. By 1887, operations were resumed, and up till 1905 the industry showed uninterrupted progress. The production of gold has in recent years fallen owing to zones of lower grade having been reached. Some other precious metals, namely, diamonds, jade-stones, rubies and silver are produced in India in small quantities. Complete returns of alluvial gold-washing, which is practised in many places, are not available. Diamonds, jade-stones, rubies, silver.

¹ The problem of the conservation of all resources of the country and also the safety of mining areas and workers in mines engaged the attention of an expert Committee (1936), which was appointed after several colliery disasters. Authorities like Sir Lewis Fermor have also warned the country that India's important coal-fields will have only a short span of life to lead if the present state of affairs continues.

² The figures are for the year 1947.

**Petroleum.**

India requires a large quantity of kerosene for domestic illumination. Her demand for petroleum is also increasing. The Indian supply of these mineral oils comes from Assam. In 1947 the production of petroleum, amounted to a little over $6\frac{1}{2}$ crore gallons, the value of which was a little more than R. 1 crore. Of the petroleum products the most important are motor spirit, kerosene, distillate fuels and wax. India now contributes only a small part of the world's supply of mineral oil, and her output falls far short of her heavy domestic demand. So India has to import large quantities of kerosene and petroleum from abroad. In view of the fact that petroleum constitutes one of the most important articles of necessity in the modern world, India's complete dependence on foreign imports is the most unsatisfactory feature of the present situation in this respect. Recently possibilities of the discovery of fresh local resources of petroleum have been indicated. It is absolutely necessary to undertake immediately exploration work to find out resources of petroleum in different parts of the country.

**Man-
ganese.**

India had been for some time the foremost among the countries producing first-class manganese ore, but at present strong competition has to be faced from the Russian and South African mines. Manganese is mainly required for manufacturing steel and hence the exports go chiefly to the steel-producing countries. Formerly, only the high-grade ores were worked, but during the boom after the First World War, with the phenomenal activity in the steel industry, many deposits of lower grades were worked at a profit. There being no smelting plant in the producing centres, the ore is exported in bulk exactly as mined. In 1947, the production of manganese was estimated at 451,634 tons valued at Rs. 96½ lakhs.

Mica.

India has for many years past been the leading producer of mica, turning out more than 60 per cent. of the world's supply. Practically all the Indian mica is exported to foreign countries. In 1947 the total export was estimated at 1.92 lakh cwt., the value being Rs. 4.65 crores. The United Kingdom and the U.S.A. are the chief importers of Indian mica.

Iron.

Iron ore has now become an important mineral product of India. The larger part of the supply comes from Singbhum

and from the Mayurbhanj and Keonjhar States. According to Cyril Fox, the iron ore resources of India are as large in quantity as, and superior in quality to, those of the United States of America. In one tract alone, comprising the areas of Singbhum, Bonai, Keonjhar and Mayurbhanj, the reserves of iron ore with upwards of 60 p.c. iron content are computed at no less than 3000 million tons. There are also valuable deposits in the Central Provinces, in Madras, in Mysore and elsewhere in India. The production of iron ore has greatly increased since the establishment of the Tata Iron and Steel Company in 1911¹. In 1947 it amounted to nearly 25 lakh tons valued at Rs. 80.67 lakhs.

Of the manufactured products of iron-ore, the value of pig-iron was Rs. 9.92 crores, of steel Rs. 21.28 crores, and of ferro-manganese, Rs. 57 lakhs in 1947.

Pig-iron,
steel, ferro-
manganese.

Except for gold and a little silver recovered in the refining of gold, copper is the only other non-ferrous metal smelted from its ore in India. The annual production in 1947 was Rs. 3½ lakhs tons of ore, valued at Rs. 60½ lakhs. Besides, copper metal was produced of the value of Rs. 88½ lakh. There appears to be no workable occurrence of tin ore in India, and as a result India has to import all her requirements of tin.

Copper.

The most promising lead-zinc ore deposit in India appears to be the occurrence at the old mines of Zawar in Udaipur State (Rajputana), and steps are being taken to re-open these mines. Before the Second World War India imported all the lead and zinc she required from Burma and Australia.

Lead and
Zinc ores.

Considerable quantities of chromite are produced in Mysore State, Bihar (Singbhum) and Orissa (Keonjhar). In 1940, the total output was estimated at 55.5 thousand tons, valued at Rs. 7.43 lakhs. The amount exported in 1940 was estimated at 42,704 tons. Thus there was a domestic consumption of about 12,000 tons of chromite in India, presumably for the preparation of furnace refractories and also in the manufacture of some heavy chemicals. The production of chromite in 1947 was 34,717 tons valued at nearly Rs. 10 lakhs.

Chromite.

¹ The establishment of the Tata Iron and Steel Works was made possible by the discovery by an eminent Bengali scientist, P. N. Bose, of iron ores in the vicinity of Jamshedpur.

- Magnesite.** Magnesite is chiefly obtained from the Salem district of Madras and from Mysore. The total output of magnesite in 1946 was 44·6 thousand tons, valued at a little over Rs. 6 lakhs. In 1947 there was considerable increase both in the output and the value of magnesite produced in Madras. The Board of Scientific and Industrial Research considered the question of establishing works for reduction of magnesite near the Mettur Hydro-electric works close to the Salem deposit.
- Tungsten ore.** Small quantities of tungsten ore (wolfram) have been obtained for many years from a deposit in Jodhpur State (Rajputana). In addition, one other small area in the Nagpur district is being prospected with some hope for a small production. The production of wolfram in 1946 was 9,500 tons.
- Bauxite.** According to Cyril Fox, the Indian occurrences of aluminium ore or bauxite are as large and of as high a grade as any in the world. The reserves of Indian bauxite are estimated at probably 250 million tons, largely in Bihar (Ranchi), the Central Provinces and Bombay, with a little in Vindhya Pradesh. Small quantities of bauxite have been used in India for preparing alum, for refining kerosene and for making high alumina cement. An aluminium factory has recently been established near Asansol. The production of bauxite in 1947 was 18½ thousand tons valued at about Rs. 1½ lakhs.
- Ilmenite.** Since 1937 India has become one of the largest producers of ilmenite in the world. The material is obtained from the beaches along the Travancore coast. In 1947 Indian production of ilmenite was estimated at a little more than 2½ lakh tons, valued at Rs. 31½ lakhs. It is mostly exported to the United States of America for the production of white pigment.
- Barytes.** The Indian production of barytes comes chiefly from Madras. It amounted in 1947 to 24·3 thousand tons, valued at Rs. 3½ lakhs. Most of this material is absorbed in the paint industries.
- Monazite.** The production figures of monazite are not published. A monazite factory for the manufacture of uranium and thorium used in the production of atomic energy will start functioning at Alwaye from the beginning of 1952. This project will be a joint venture of the Central and Travancore-Cochin Governments.

Certain other mineral products deserve notice. Saltpetre or potassium nitrate was at one time an important article of export; and in the last century there were times when the average annual value of the exports amounted to £900,000. But in 1947 the amount exported did not exceed 16½ thousand cwts., the value of which was Rs. 6½ lakhs. Mineral salt is produced in India, particularly in the Salt Range and in the Kohat mines.

Mineral salt.

Building materials and road metals were produced in 1947 of the total value of Rs. 3.34 crores.

Building and road materials.

Other minerals worthy of mention, namely, ochre, beryl, graphite, gypsum, corundrum, statite and zincon were produced in small quantities during this year.²

European entrepreneurs were the pioneers in mining in modern India, and a large number of the mining industries is still in their hands. The reason for this state of affairs is to be found in the want of indigenous capital and enterprise. The available technical and scientific knowledge in the country is also inadequate. It is to be hoped that in future capitalists will invest more of their resources in mining and the associated industries and that the State will offer greater facilities for the training of young men.

Other minerals.

² *Indian Minerals*, July, 1949 (Geological Survey of India).

CHAPTER VII

PRODUCTION—(*Concluded*)

MANUFACTURES

At the present moment India is not so advanced in manufacturing industries as some of the European and American countries, but there was a time when she was one of the chief manufacturing countries of the world. Even as late as the eighteenth century, she was on a par with Europe in industrial matters, and her manufactures found a ready market in many foreign countries. Until recent years, Indian industries were always worked by hand labour. The artisans inherited from their ancestors or acquired by experience a dexterity and delicacy of touch which was not surpassed by artisans of any other country. Not only did they supply the people with the articles of necessity, but they turned out works of art of great excellence.

Silk and cotton fabrics and the metal industries attained great magnitude and remarkable excellence in many parts of the country. An eminent writer wrote many years ago: "In manufacture the Hindus attained to a marvellous perfection at a very early period, and the courts of Imperial Rome glittered with the gold and silver brocades of Delhi. The *muslins* of Dacca were famous, ages ago, throughout the civilised world. Textile fabrics of inimitable fineness, tapestry glittering with gems, rich embroideries and brocades, carpets wonderful for the exquisite harmony of colour, enamel of the most brilliant hue, inlaid wares that require high magnifying power to reveal their minuteness, furniture most elaborately carved, swords of curious forms and excellent temper are among the objects that prove the perfection of art in India."¹ In the words of Sir

¹ So also M. Martin in his *Indian Empire* says: "The gossamer muslins of Dacca, beautiful shawls of Cashmere and the brocaded silks of Delhi adorned the proudest beauties at the courts of the Caesars, when the barbarians of Britain were painted savages. Embossed and filigree metals, elaborate carvings in ivory, ebony and sandal-wood ;

William Hunter, "the industrial genius of her inhabitants, even more than her natural wealth and her extensive seaboard, distinguished her from other Asiatic lands." The handicrafts were very often practised on a fairly large scale, and they gave rise to big and wealthy towns. Different varieties of manufactures were produced in different parts of the country. But Bengal was specially famous for the vast quantity and excellent quality of her manufactured products.¹

Manufactures in ancient and mediæval India. Their excellence.

In the latter part of the eighteenth century, the industrial revolution began in Europe, and the older methods of industry were completely superseded by new ones. By the adoption of methods which saved labour and materials, and by the utilisation of by-products, goods began to be turned out at a much cheaper cost. Machinery supplanted hand labour, large amounts of capital began to be invested in every industry, production on a small scale gave place to large-scale production, and a better organisation was introduced. This great change led to a great increase in productive power. Indians, however, remained unaffected by the change. The Indian artisans continued to work as their forefathers had worked—without capital, without the assistance of machinery, without organisation. Each individual went on working by and for himself as before; the appliances he used were the same as had been in common use before the manufacturing era began; there was no co-operation among the artisans; and division of labour was practised only to a limited extent. No attempt was made to render the Indian industries more efficient by reorganising them

Causes of their decay.

brilliant dyed chintzes, diamonds, uniquely set pearls and precious stones, embroidered velvets and carpets, highly wrought steel, excellent porcelain, and perfect naval architecture—were for ages the admiration of civilised mankind, and before London was known in history, India was the richest trading mart of the earth."

¹ Bernier, who visited India during the reign of Aurangzeb, wrote: ". . . Bengal abounds also in sugar with which it supplies the kingdoms of Golkonda and Karnatic, where very little is grown, and Arabia and Mesopotamia, through the towns of Moka and Bassora, and even Persia." He further observed: "There is in Bengal such a quantity of cotton and silk, that the kingdom may be said to be the common storehouse for those two kinds of merchandise, not of Hindusthan or the Empire of the first Mogul only, but of all the neighbouring kingdoms, and even of Europe." He added: "The rich exuberance of this country . . . has given rise to a proverb in common use among the Portuguese, English and Dutch that the kingdom of Bengal has a hundred gates open for entrance, but not one for departure."

on modern lines. To these defects were added the efforts of the East India Company and of the British Government to ruin the indigenous industries of the country. For some time the industries struggled for life, but were ultimately killed or crippled by competition with foreign manufactures, aided by state action. Other contributory factors combined to bring about the same result. The ruling chiefs and princes were great patrons of India's indigenous arts and crafts, and their gradual disappearance deprived the artisans of a good volume of support and patronage. There took place at the same time a great change in the habits and the tastes of the Indian people due to the impact of Western ideas as well as the desire to imitate their new rulers, and this also meant a diminution in the demand for indigenous goods. The result was that by the middle of the last century India found herself reduced to the position of an almost exclusively agricultural country.¹

¹ Sir William Hunter says: "Many circumstances conspired to injure the Indian industry in the last century. England excluded these fabrics not by fiscal duties but by absolute prohibition. A change of fashion in the West Indies on the abolition of slavery took away the best customer left to India. Then came the cheapness of production in Lancashire, due to improvements in machinery. Lastly, the high price of raw cotton during the American war, however beneficial to the cultivators, fairly broke down the local weaving trade in the cotton-growing tracts . . . And whilst on the one hand the downfall of the native courts deprived the skilled workman of his chief market, on the other hand the English capitalist has enlisted in his service forces of nature against which the village artisans in vain try to compete. The tide of circumstance has compelled the Indian weaver to exchange his loom for the plough, and has crushed many of the minor handicrafts."

That eminent historian, H. H. Wilson, says: "It is also a melancholy instance of the wrong done to India by the country on which she had become dependent. It was stated in evidence that the cotton and silk goods of India up to this period could be sold for a profit in the British market at a price from 50 to 60 per cent. lower than those fabricated in England. It consequently became necessary to protect the latter by duties of 70 or 80 per cent. on their value, or by positive prohibition. Had this not been the case, had not such prohibitory duties and decrees existed, the mills of Paisley and Manchester would have been stopped in their outset, and could scarcely have been again set in motion, even by the powers of steam. They were created by the sacrifice of Indian manufacture. Had India been independent, she would have retaliated; she would have imposed preventive duties upon British goods, and would thus have preserved her own productive industry from annihilation. This act of self-defence was not permitted her; she was at the mercy of the stranger; British goods were forced upon her without paying any duty; and the foreign manufacturer employed the arm of political injustice to keep down and ultimately strangle a competitor with whom he could not have contended on equal terms." (*History of India*, vol. i, pp. 538, 539, note).

All industrial activity and enterprise remained paralysed for a long time. In the last quarter of the nineteenth century, however, a distinct tendency to a better state of affairs was discernible. But the situation was full of difficulties. Modern industries, to be successful, must be undertaken by the educated Indian. But the educated Indian until the beginning of the present century lacked the practical commonsense of the businessman, and his education had not fitted him for the discharge of the multifarious duties of the modern entrepreneur. His small capital was wholly inadequate for the starting of business on a proper scale, and there were few banks, if any, which would be ready to lend him money. He could not command the services of men who possessed the requisite knowledge and technical skill. The conditions were so discouraging that he often gave up his idea in despair, or, if he was of a sanguine temperament, went light-heartedly into ambitious schemes which could only end in failure.

Tendency towards improvement.

Difficulties still great,

In spite of the various difficulties in the way of an industrial regeneration, some advance has actually been made during the last four or five decades. People have now begun to realise the advantages of co-operation and combination. Ignorance and apathy are gradually disappearing before a fresh energy and a new spirit of enterprise. Educated India is taking more and more to technical and industrial education in order to obtain a mastery over nature. Capital is gradually overcoming its proverbial shyness. Steam is fast superseding hand-power, and a substantial advance is being made in the utilisation of electricity.¹ Serious attempts are being made to revive old industries and new ones are cropping up in every direction.

but are being overcome in part.

A brief review of the more important of the industries will give an idea of the present industrial position of the country.

The chief industries:

¹ The Tata Hydro-Electric Works, opened in February, 1915, has been of the highest economic importance to the cotton and other industries in Bombay. Power generated by the enormous volume of water running down the Western Ghats is transmitted at a cheap cost to the city of Bombay. One noteworthy feature of the scheme is that it has been financed entirely by Indian capital and executed under an Indian board of directors. The electricity supplied by the Cauvery Falls power station has been a considerable factor in the successful working of the Kolar gold field. Many enterprises of this nature have recently been undertaken. Schemes are on hand for electrifying Bihar and the Punjab by the grid system of power transmission. For further details see Part II.



The industries are usually classified under the following heads: (1) textile fabrics and dress; (2) food, drink, and stimulants; (3) metals, metallic manufactures, precious stones, and minerals; (4) glass-, earthen-, and stone-ware; (5) building requisites; (6) light, fuel, and forage; (7) vehicles and vessels; (8) wood, cane, leaves, etc.; (9) drugs, dyes, guns, and chemicals; (10) leather, horns, etc.; and (11) articles of supplementary requirements.

Weaving.

Weaving is the most important industry of the country next to agriculture. There was a time when handloom weaving reached a perfection in the production of fine cloths. Indian *muslins* were once regarded as fabrics of unrivalled delicacy and beauty, and these used to be exported to European markets. Handloom weaving, however, suffered greatly in competition with Manchester, and hundreds of thousands of workers were thrown out of employment. The weavers of Bengal, whose fame had at one time extended all over Europe, suffered most from foreign competition. The development of a large number of cotton mills within India has also been a contributory factor causing the decline of handloom weaving. But the industry is not altogether dead. A great impetus to this industry was given by the *Swadeshi* movement in 1905-11 and, some years later, Mahatma Gandhi's socio-political movement gave a push to the production of *khaddar* or coarse home-spun and home-woven cloth. The Congress ministries during 1937-39 tried in many of the Indian provinces to encourage hand-loom weaving by using the hand-loom products for policemen's uniforms and other similar purposes.

According to the figures made available by the Fact-Finding Committee on Handlooms appointed by the Government of India in 1941, there were about 2 million looms in India giving employment to 2.4 million people. The Committee estimated the total value of handwoven cloth at Rs. 72 crores.

Ginning,
Cleaning,
Pressing,
and
Spinning.

The preliminary processes of ginning, cleaning, pressing, and spinning are also important industries by themselves. Formerly, cotton used to be hand-ginned, mostly by women. But now hand-ginning has been superseded to a very large extent by power-gins. Cleaning and pressing are very often combined with ginning in the same factory. Spinning of cotton yarn

was for a long time a domestic industry, being in many cases the chief occupation of women. A movement was initiated, mainly under the direction of Mahatma Gandhi, to popularise the spinning industry, and various arguments were advanced in support of this industry. But expert opinion regards hand-spinning as an economically unsound proposition, however great may be the other merits it possesses. The indigenous method is slow and tardy. It is doubtful if this method can be materially improved, and the future development of spinning in India must depend on the increase in the number of power-spindles operating in mills.

Hand-loom weaving is more expensive than power-loom weaving. Experts, however, think that there are several factors in favour of the hand-loom which may be summed up as follows: the amount of fixed capital needed and the overhead expenses are small; the coarser hand-loom articles are stronger and more durable than those produced by the power-loom; artistic and richly ornamented articles can be produced chiefly by the handloom; the hand-weaver possesses considerable advantage in his inherited skill; he has a low standard of living, and combines the industry with other occupations, notably agriculture; women who, on account of social customs, are generally debarred from working in the factories can find a place in the industry; the hand worker who works on his own account works harder and takes greater interest in his work than the factory labourer; the adaptability of the hand-loom industry is much greater than that of the power-loom in times of industrial fluctuations.

Advantages of the hand-loom.

The fact that hand-loom weaving has not entirely died out has led many people to hope that the industry may yet be saved. Some eminent persons think that, by the adoption of improved methods, the hand-loom may yet successfully compete with the power-loom. This belief, however, is not shared by experts, who find in the establishment of weaving mills the only means of meeting foreign competition.

Views of experts differ.

The Industrial Commission, on a review of the position of the hand-loom industry of India, remarked: "The workers are usually uneducated and without a knowledge of anything regarding their trade, except what can be acquired locally. . . ."

Views of the Industrial Commission.



Much useful work can be done by bringing to the notice of artisans labour-saving devices, or even such complex pieces of mechanism as the Jacquard machines for weaving intricate patterns on hand-loom^s.¹ The hand-loom industry has a distinct sphere of activity. If it specialises in the production of artistic manufactures and products which can meet the particular demands of a locality, there seems to be no reason why it should not flourish, provided certain improvements are adopted in its technique, organisation, and finance.

Sug-
ges-
tions for
improve-
ment.

Among the means of improving the hand-loom industry which have been suggested from time to time the following are worthy of mention: (a) the spread of elementary education so as to raise the intellectual standard of the community; (b) the use of efficient hand-loom^s; (c) improvements in preliminary processes; (d) co-operation among weavers; (e) demonstration to the weavers of successful experiments; (f) cheap credit; (g) advances for improved appliances; (h) greater touch of the weavers with the customers so that they may know the demand of the market; (i) better marketing facilities; (j) the establishment of small hand-loom factories and weaving schools.

Weaving
mills.

During the last half-century there has been a great development of the mill-weaving industry in most of the provinces. The first power-loom was worked in India by Mr. Davar of Bombay in 1854, and by 1881 India had come to possess 55 cotton mills located mainly in Bombay and Ahmedabad. The industry made further progress during the next 25 years. The Swadeshi Movement of Bengal gave a great stimulus to the industry in the years 1905-11.

Effects of
the war.

The First World War interfered with the supply of cotton goods from abroad, and brought in its train very high prices. It thus gave a great impetus to the development of the cotton-mill industry in India. The Government also had to place orders with the Indian mills for khaki cloth required for soldiers in the eastern theatre of the war. Another factor which helped the growth of the industry was the change in the state policy accompanying the Montagu-Chelmsford Reforms. The result was that while the paid-up capital of all the cotton mills of

¹ *Report of the Indian Industrial Commission*, p. 161.



India taken together was 43.57 crores in 1914-15, it nearly doubled itself in course of a decade.

The cotton excise duty which had been a real handicap upon the growth of this industry was removed in 1925. But the most important step taken in this direction was the grant of protection. After the Tariff Board had reported in favour of protection some measure of protection was granted by the Government, after considerable hesitation, against cheap imports of cotton goods in 1927. A more important step was taken in April 1930, when the Cotton Textile Industry Protection Act was passed raising the duty on all varieties of cotton piece-goods.

Grant of protection.

Once the policy of protection was adopted, it continued with great vigour. The duties were raised in March 1931, and again in November of the same year. During 1932-33 the Government raised further the duties on Japanese piece-goods in order to counteract the effects of the depreciation of the *yen* and the consequent increase in the import of Japanese goods. The main Act was amended in 1934 to give effect to the recommendations of the Tariff Board made in 1932. This amendment fixed the rates of duties upon cotton goods in the light of the official Indo-Japanese Trade Agreement and the unofficial agreement, known as the Mody-Lees Pact between the Indian and British mill-owners. The duties imposed by this amendment were to remain operative till 1939. Another Tariff Board enquiry was instituted in 1935 for investigating the appropriateness of the import duties on British piece-goods. As the result of this enquiry the duties on the imported cotton piece-goods from Great Britain were reduced on the ground that higher duties were not required for protection. The Indo-British Trade Agreement of 1935 also committed the Government to a reduction of the duties on British piece-goods. These actions were regarded as repeated attempts on the part of Britain to help the British textile industry at the expense of the cotton textile industry of India and not only gave rise to adverse criticism but also created discontent.

Extension of protection.

The period of operation of the protective duty on cotton piece-goods was extended by the Indian Tariff (Third Amendment) Act of 1939 to 31st March 1942, and was further extended to March 1947. Towards the end of 1946, the Government of India



requested the Tariff Board to hold an enquiry as regards the question of protection to the industry. The Tariff Board after proper enquiry made the following principal recommendations:

(1) The industry has failed to substantiate its demand for extension of protection, and protective duties should be allowed to expire on the 31st March 1947. But if necessary in the interest of safeguarding the industry against foreign competition, protection may subsequently be granted on application. The Board further recommended the abolition of the import duty on yarn, as it was causing hardship to the hand-loom weaving industry but bringing no positive benefit to the spinning industry. The Government accepted the main recommendations of the Board and protection was discontinued from March, 1947.

The Second World War put a heavy pressure on the cotton textile industry of India. It was called upon to devote 60 per cent. of its installed capacity to production for the Armed Forces and at the same time it had to meet increased demands from abroad and the general body of consumers within the country. Consequently, the industry passed through a prolonged period of prosperity and expansion. The total production of piece-goods rose from 4,012 million yards in 1939-40 to 4,871 million yards in 1943-44.¹ In 1948, India contained 422 cotton mills with 1,04,33,000 spindles and 2,02,000 looms. During the post-war period there was some decline in output, and in 1948 the production stood at 4,337 million yards.

Partition deprived India of the raw cotton produced in Sind in Pakistan. Mills were obliged to turn to the Indian varieties and the authorities viewed favourably the industry's request for readjustment in the programme of production and even an increase in the prices of some varieties of cloth and yarn. Early in 1948 the Government relaxed the control on cotton goods with a view to stepping up production, but the experiment proved a total failure and created a muddle in the cloth position of the country. Soon the Government retraced its steps and imposed over-all control over cotton goods. The importation of raw cotton at high prices tended to raise the prices of piece-goods. Therefore, the production of superior quality cotton

¹ Statistics relating to India's War Effort: Government of India publication, p. 18.

World
War II.

Partition
of 1947

in India as an ultimate solution was envisaged. The complaint of the mills that failure to revise prices discouraged production at a high level was met by the decision of the Government to revise prices in every quarter of the year in accordance with the formula suggested by the Tariff Board. Calculations were made with reference to fluctuations in the main elements of costs such as raw cotton, fuel, power and manufacturing charges. About the middle of the year 1950 ceiling prices of raw cotton were substantially raised, which resulted in a large increase in cloth prices. During the year 1949 and the first nine months of 1950 the cotton industry had to face many troubles and some mills were obliged to close down. The strike of mill labour in August-September, 1950 added to the difficulties of the situation.

The process of weaving silk is the same as that of cotton, but it requires greater care, and hence the use of a specialised kind of machinery. The greater part of silk production is done by the hand-loom. During the early years of the administration of the East India Company, the silk industry in India was in a thriving condition. The import of Bengal silk into England averaged 560,285 lbs. during 1776-85. Even as late as in the eighties of the last century the value of the silk manufactures exported from India amounted to more than 30 lakhs of rupees a year. But in recent years the value of exported silk has dwindled down to a negligible figure. The reasons which have caused the decline of the export of Indian silk goods are mainly two: first, there has been an immense development of the silk-manufacturing industry in Europe, the U.S.A., Japan, and China; and secondly, the introduction of rayon or artificial silk has caused a great decline in the demand for genuine silk products.¹ Even within India these two factors are making their effects increasingly felt. Every year India imports a good volume of silk goods from abroad, and the imports of artificial silk from foreign countries are threatening the Indian artisans. The provincial agricultural departments and the Imperial Sericultural Committee have tried to improve the production of silk in India, but in the presence of low-priced rayon it is difficult for Indian silk to find a very large market. The Textile Protection Act of 1934,

Silk-weaving.

¹ Rayon is not only a competitor to silk, but is also becoming a keen competitor to cotton goods.

however, rendered some help to the silk manufacturers of India by imposing protective duties on raw silk, silk yarn, silk piece-goods, and on rayon and rayon products. The question of granting further protection to the silk industry was referred to a Tariff Board in 1937. In 1940 protection was again extended for a period of two years. Recently the Tariff Board recommended the continuance of protection to the industry, and accordingly the protective duty on raw silk was greatly increased in 1949.

The industry is mostly carried on as a domestic business. The main advantage is that it can offer employment to women of the middle class. Expert authorities are inclined to think that there is a considerable scope for the development of silk-weaving as a cottage industry, provided it is organised on sound lines. Silk goods are consumed mainly by the rich and upper middle-classes, and hence a small quantity produced with personal care and artistic skill is likely to be more profitable than a large quantity of plain goods produced by mills. It is not suggested that mills are not necessary, but it is pointed out that there is no reason for the artisans to disappear. Maxwell Lefroy's suggestions for the improvement of the silk industry are worth noting in this connection. They are: improvement in design, development of commercial organisation, cheapening of raw materials and methods of production, wherever possible, production of suitable fabrics and their spread by demonstration, help to local schools with expert advice, and assistance to local efforts with orders and financial facilities.¹ We may note, further, that the possibilities in India for factories manufacturing rayon and rayon products are immense. But it is surprising that Indian capitalists have not yet turned their attention in this profitable direction.

Recently the Central and State Governments have taken a lively interest in the development of the silk and artificial silk industries. Imports of silk and artificial silk fabrics are not allowed at present in the interest of the indigenous weaving industry except for what may have to be obtained under the Trade Agreement with Switzerland. Exports of indigenous silk and artificial silk fabrics are allowed freely at present and exports

¹ *Report of an Enquiry into the Silk Industry of India*, vol. iii, p. 142.



of raw silk and spun silk yarn are totally banned. A Silk Board was instituted in May 1949 to deal with the special problems of the silk industry. The Board has distributed to State Governments grants amounting to Rs. 1,39,000 to initiate a number of special schemes. Arrangements are being made to import special types of modern machinery and for securing the services of experts from Japan. If the silk industry be revived by proper measures of encouragement, silk goods may become an important dollar-earner.

Allied to weaving is knitting. This industry has received a **Knitting-** great impetus from the new spirit. It can give employment to a large number of women who may be engaged to work with small machines in their own homes for piece-wages. Recently there has been a considerable increase in the number of hosiery mills operating in India. Japanese competition in the market for hosiery products was very keen at one time, but the Indian mills were aided by the protection granted to them by the Textile Protection Amendment Act of 1934.

Other cotton industries are those of rope-making, carpet-making, tent-making, etc. Cotton carpets or *durries* form an important industry in the U. P. Artistic work on dress was at one time very much in demand, but is now in a declining state.

The indigenous woollen industry of India suffered much in competition with cheap German goods. Attempts have been made during the last quarter of a century to develop the industry on modern lines. In East Punjab, Uttar Pradesh and Bombay, a number of woollen mills are now working. Woollen carpets of good quality are made in Uttar Pradesh and in East Punjab. Indian mills produced 30 million lbs. of woollen goods in 1945. The scarcity of raw material of a good quality is an obstacle to the growth of the industry. The exclusion of raw wool and wool tops from the new O.G.L. XVI has considerably handicapped the industry in recent times as regards the supply of raw materials. **Woollen industry.**

In recent years the Central and State Governments have taken a keen interest in the problems of the woollen industry. Assistance is being rendered to the industry. To explore the possibilities of further development of the industry, a Wool Development Committee has been formed and the establish-



ment of a Central Woollen Technological Institute is under consideration.

Jute.

Jute supplies the raw material for the manufacture of gunny bags and other articles used for packing purposes. The first jute-spinning mill was erected at Rishra near Serampur in 1855. It was followed four years later by the first power-loom factory at Baranagore. Since then, both the banks of the Bhagirathi have been dotted with the smoking chimneys of jute mills.

The record of the industry since its establishment up till the beginning of the depression of 1929-33 was one of almost uninterrupted progress. The First World War of 1914-18 gave a great stimulus to this industry as jute-gunnies were largely required for war purposes and the industry paid fabulous dividends. The number of mills went on increasing and the capital invested rose rapidly. But the world-wide trade depression exercised an adverse influence over the jute industry.

The Second World War offered an easy solution of the problem which faced the jute industry by providing an effective stimulus. With the outbreak of war, the problem of over-capacity which had been afflicting the industry up to 1939 was replaced by the new problem of raising production of jute goods at a rapid rate. The intensification of Allied war activity and the gradual spread of war to the Near and Far East provided a continuous stimulus to the industry. There was, however, a temporary set-back in 1941 owing to military reverses in South-East Asia. Except for this sudden check, the industry maintained an even progress throughout this period, and in 1945 it experienced a typical boom condition.

The partition of India adversely affected the jute industry and created an anomalous situation. Eastern Pakistan produces at least 70 per cent. of raw jute including most of the superior quality jute. During 1947-48 India produced nearly 1,696,000 bales of raw jute while Pakistan produced 6,843,000 bales. Normally Indian mills require 66 lakh bales of raw jute per year. Thus an adequate supply of jute from Pakistan is the primary condition of the smooth working of the mills in India. After the partition, Pakistan agreed to supply 50 lakh bales of raw jute to India. The remainder was to be supplied from

stocks and Indian production. A great portion of the raw jute produced in India had to pass through Pakistan territories, but the Assam Rail Link, recently completed, provides an easy passage for raw jute produced in outlying parts of Indian Union through Indian territory to Calcutta. Pakistan levies a very high duty of Rs. 20 per bale on raw jute crossing its land frontier and Rs. 6 per bale of jute cuttings and Rs. 4 per maund of kutchha bale. In addition to this, Pakistan in 1949-50 imposed an excise duty on raw jute exported to India.

All these facts lead to two conclusions. In the first place, the production of raw jute in India should be immediately enhanced. In order to maintain output at a certain level, the jute mills should be assured of continuous and regular supply of raw materials in sufficient quantities. It is dangerous for any country to depend absolutely on foreign sources for the basic raw material of an industry which is so vital to the national economy. The industry today is the greatest earner of foreign exchange and a large employer of labour. The expansion of jute cultivation within the Indian Union is the most pressing problem of the day. Strenuous efforts are being made to produce more raw jute in West Bengal, Assam, Orissa, U.P. and South India.

In the second place, the chief attraction of jute lies in its comparative cheapness. Today the industry faces the competition of substitutes. South Africa is making frantic efforts to find a cheap substitute for jute bags. In the U.S. market we find the competition of paper bags very keen and serious. Under these circumstances, the industry can only survive by reducing its cost of production. From a pure standard of economy and efficiency, many firms appear to be producing at an uneconomic level. Rationalisation seems to be the only way out of this impasse.

The manufacture of paper was at one time an extensive hand Paper-industry, but now it has almost died out. The paper produced in India is now almost wholly machine-made. The production of machine-made paper in India dates from the establishment in 1870 of the Bally Mills on the Bhagirathi. The development of the paper industry was slow.

The Government constituted a paper panel to advise them on the possibilities of post-war development of the paper industry. The panel in 1947 fixed targets of production and consumption for the next 10 years and proposed the establishment of new units mostly outside Bengal, in view of the fact that Bengal already produced more than 50 per cent. of the paper in the country. Government accepted the recommendations, and three new units have since been established. In 1934-35, the total production of paper in India amounted to 892,000 cwts., while the amount imported was as much as 2,938,000 cwts., valued at 2.73 crores of rupees. Prior to the Second World War only 11 mills had been established.

The staple material for the manufacture of paper in India had formerly been *sabai* grass, which grows abundantly in Northern India. The Forest Research Institute at Dehra Dun made extensive investigations into the possibility of utilising Indian grasses other than *sabai*, and the prospects of some of them, *e.g.* of *Bhabbar*, were found to be reasonably good. The possibilities of making paper from bamboo were successfully explored.

The Indian paper industry had to face many difficulties in the inter-war years. The cost of chemicals and the transport charges for coal were high, and the foreign competition was acute. Protection was applied for, and the Tariff Board in 1924 expressed the opinion that those mills that used *sabai* grass did not deserve protection ; but "the manufacture of pulp and paper from bamboo might in time become a very important industry for India, and the prospects are good enough to justify the grant of state assistance to the firms who are endeavouring to promote its development". On the basis of this recommendation, protective duties were imposed on certain varieties of foreign paper for a period of seven years. In 1931 there was another Tariff Board enquiry, and the duties were renewed next year for another period of seven years. As India did not produce newsprint made from wood-pulp and the finer varieties of paper, protection was granted only to the varieties in ordinary use. The Act of 1932, however, imposed a duty on wood-pulp to encourage the extension of the production and use of bamboo pulp in India. In 1939, the production granted to the paper and paper-pulp industry was renewed, but the rates were, in some cases, slightly

reduced. The period of protection was fixed at three years. The protective duty was abolished after World War II, as the price of indigenous paper compared favourably with the world prices which had gone up during the war.

It has indicated that pulp required for newsprint can be made from certain types of timber found in an adequate quantity in Madhya Pradesh. The National Newsprint and Paper Mills Co. has been formed there with a capacity of producing 30,000 tons of newsprint per annum.

The shelter afforded by protection, coupled with the stimulus Paper. provided by the Second World War, brought about a phenomenal growth of the industry. In 1944 the total production stood at 1·03 lakh tons, nearly double that of 1938. Compared with the 10 mills in 1937, the total number of mills producing paper and paper boards was 23 in 1944. During 1947-48 the production declined to some extent owing to irregular supply of coal, labour unrest and transport difficulty. There was however a marked improvement in the situation during 1948-49. In 1949 the production amounted to 1·03 lakh tons. At present the Indian mills, in addition to the usual printing and writing paper, produce toilet paper, drawing paper, packing paper and various types of boards.

Like many other industries, the paper industry also was adversely affected by Partition. It has been deprived of a part of its supply of raw materials. The solution of the problem lies in the immediate development of internal sources of raw materials. For this purpose, it is absolutely necessary that the forest wealth of the country in this regard should be properly surveyed. The Forest Research Institute is doing useful work in this direction.

Dyeing was at one time a very thriving industry, but Indian Dyeing. dyes, though better and more lasting, have to a large extent been replaced by cheap aniline dyes.¹ The indigenous dye

¹ As regards the British dye industry, the Government gave financial assistance in the form of an advance up to a maximum of £1,700,000 secured by debentures but paying only a low rate of interest (4 per cent) to a producing association of consumers. It also gave a grant of £1,000,000 for scientific research in respect of the production of synthetic dye-stuffs. Vide *Report of the Committee on Commercial and Industrial Policy after the War*, p. 2. It is urged that the Indian Government should follow this example.



industry has probably felt—more than any other—the effects of modern technical progress, and many dyers have had perforce to seek other means of livelihood.² Dyes are even now manufactured from various stuffs, such as indigo, catechu, al, safflower, lac, and turmeric, but nowhere on a considerable scale. The indigo industry has greatly declined since the production of synthetic indigo by Germany.

Rice-hulling,
Wheat-milling,
etc.

The manufacturing industries connected with food-grains are rice-hulling, wheat-milling, bakeries, and biscuit manufactures. Flour mills have been for some time past working in many towns, but in the villages milling is still done mainly by hand. Small machines are now extensively used for rice-hulling, and handy flour-mills are also coming into general use. In West Bengal and East Punjab, several biscuit factories have been started.

Sugar.

Sugar used at one time to be one of the important cottage industries of India and has now become an important large-scale industry in the country. This new development of the sugar manufacturing industry is a story of short period. In 1918, the Indian Industrial Commission remarked: "Although India possesses a larger acreage under sugar-cane than any other country in the world, the imports of sugar have grown in recent years very rapidly, and before the war was exceeded only by those of cotton manufactures." Germany's bounty-fed sugar gave the first shock to the old sugar industry of India. The Indian Sugar Committee of 1920 very exhaustively dealt with the question of the production of sugar in the country. They pointed out that the production of sugar per acre in India was extraordinarily low in comparison with the other cane-growing countries. The Committee found the average out-turn of sugar in India to be 1·7 tons per acre as against 1·96 tons in Cuba, 4·12 tons in Java, and 4·61 tons in Hawaii. The problem of development of the sugar industry hinged consequently on the increase of the yield per acre. The yield of sugar depended on agricultural as well as industrial factors.

As regards agricultural factors, the selection of the right variety of cane was considered the most important. Experiments were conducted not only with the indigenous varieties,

² *Report of the Indian Industrial Commission*, p. 195.

but also with exotic ones. At Shahjahanpur, Mr. Clarke, by deep tillage, heavy manuring, and an ample supply of water for irrigation, was successful in growing exotic varieties of cane, and the yield obtained there was 3.7 tons of *gur* per acre.¹ In this respect invaluable service was rendered by the Experimental Research Station at Coimbatore, where successful experiments were made with the introduction of Java sugar-cane in India. The question of manure was another important factor. In regard to this matter the Indian Sugar Committee observed: "If the urgent demand for increased food production is to be met and the full benefit of extensions of irrigation is to be realised, it is essential that a supply of fertilisers should be available at reasonable prices."² The possibilities of the introduction of motor tractors were also explored.

When the Indian Sugar Committee undertook their investigation, they found that the actual manufacture was carried on under very wasteful methods. The indigenous cane-crushing mills, which were mainly driven by bullocks, were mostly antiquated. The Industrial Commission estimated that, of the sugar grown in India roughly one-third was wasted owing to inefficient and primitive methods of extraction. The Indian Sugar Committee calculated that the inefficient methods involved an annual loss of 1,068,960 tons of sucrose in the manufacture of *gur* alone. They made important suggestions regarding the construction of furnaces, the boiling of the juice, and the refining of sugar, some of which were adopted by the manufacturers with great benefit to themselves and the industry.

During the last three decades sugar production on a factory scale has been undertaken in India. In 1925-26, there were 23 factories in India which produced sugar direct from the cane. At first these factories were small in size, and their total output, even as late as in 1925-26, did not exceed that of a single factory of Java; the machines were of old design and the manufacturing losses were considerable. There was also the difficulty in regard to the supply of the raw material, for the production of cane was mostly dispersed. Over and above all these was the strong competition from Java, where sugar was

¹ *Report of the Indian Sugar Committee*, p. 39.

² *Ibid.*, p. 216.



produced at a cost nearly one-third of the average cost of production in India.

Protection.

The case for protection of the Indian sugar industry with a view to making India ultimately self-sufficient in respect of this commodity of everyday necessity was naturally a strong one, and the Tariff Board reported in 1931 in favour of a policy of rigid protection. The Board found that the industry possessed the advantages of a cheap supply of raw materials, labour and fuel and of a guaranteed market, that the development of the industry was handicapped by the strong competition of the Javanese growers, and that in about fifteen years' time the industry would be able to reduce costs and face foreign competition. The Sugar Industry Protection Act, passed in 1932, imposed almost prohibitive duties on imported sugar. The real history of the large-scale sugar-manufacturing industry of India begins from that year.

Great
develop-
ment.

Under the shelter of protection, quite a good number of factories was started, mainly in U. P. and Bihar, for manufacturing refined sugar on a large scale. The total production of sugar increased from a little more than $1\frac{1}{2}$ lakh tons in 1931-32 to more than 11 lakh tons in 1936-37, and the imports came down from $9\frac{1}{2}$ lakh tons in 1929-30 to 23,000 tons only in 1936-37. Unlike many other industries, the sugar industry was very little affected by World War II. Sugar was a rationed article and its price was drastically controlled for both wholesale and retail markets. There was not much opportunity for exports. Consequently, the War did not bring any appreciable benefit to the industry. The total production of sugar declined from $12\frac{2}{8}$ lakh tons in 1939-40 to 11.40 lakh tons in 1940-41. In 1941-42 production reached a further low figure. This decline in output was primarily due to short supply of cane and to transport difficulties. The short supply of cane was caused by the control exercised by the Government of India from April, 1942. In the circumstances sugar production went down and *gur* production increased. In 1943-44, the output almost reached the pre-war figure. But during the next three years a little less than 10 lakh tons was produced annually. In 1947-48 the production from 135 factories stood at 10.77 lakh tons. Production in 1949-50 was 12.04 lakh tons.

World
War II.

In 1947, sugar was decontrolled in order to raise production and stop black-marketing. The immediate effect of this unwise step was to raise prices to a high level. The industry was faced with the problem of disposing of its stocks of sugar, as high prices, coupled with transport difficulty, created an obstacle to a speedy sale. The transport problem was soon solved, but the other difficulty persisted. Ultimately, the Government was compelled to reimpose controls over the price and distribution of sugar. This reimposition did not bring any satisfaction to the people. Controlled prices of sugar were fixed fairly high. Besides, the quantities available to the consumers were very small. Black-marketing still prevails everywhere and the prices charged by black-marketers are even now exorbitant.

✓ In connection with the development of the sugar industry, Difficulties. various difficulties have manifested themselves. These difficulties have arisen chiefly from ill-planned distribution of the factories, from inefficient marketing, and from erratic competition which has been very keen in some places and almost absent in others. As regards the general efficiency of Indian sugar factories, it may be pointed out that the average 'recovery' or yield of sugar from the cane is about 10 per cent as compared with 11.9 per cent in Java, 12 per cent in Cuba and 14 per cent in Australia. This low recovery is partly due to the poor quality of the cane cut. As Dr. Maxwell observes, the root cause of these low recoveries in India consists in the original size and lay-out of the plant, as well as the design and quality of the machinery, and not least in the operation of the factory. At the same time, there are some factories in India which can stand comparison with the best in Java and elsewhere in respect to machinery lay-out and operation of the plant. It is due to the inferior quality of the cane that these factories are prevented from attaining the same high recoveries as in Java.¹ It may be hoped that the increasing experience of the factory-owners and the guidance of scientific experts will enable the industry to make satisfactory progress in the future.

The development of the power alcohol industry in the country is essential for two reasons: (1) for supplying indigenous liquid Power
Alcohol
Industry.

¹ Vide *Capital*, Jubilee Number, 1948.



fuel and (2) for the economical disposal of surplus molasses produced by the sugar factories. There are at present 14 distilleries in the country producing power alcohol with a total installed capacity of 9.5 million gallons per annum. Four more distilleries are expected to be in production by the end of 1950. Apart from this there are proposals for the establishment of three other distilleries in the Madras State.

The highest production of power alcohol in the country has been 3.10 million gallons per annum. This lag in production is due to inadequate and irregular supplies of molasses as also to insufficiency of coal, delay in the disposal of stocks of alcohol and the unsatisfactory quality of the molasses supplied by the sugar factories. It is necessary that control over molasses should be exercised by the Central Government and other assistance offered so that their target of increasing production to 23.6 million gallons in the next five years may be reached.

Leather.

India produces enormous quantities of hides and skins, but exports a large portion of them in a raw or half-manufactured state to foreign countries. The progress of the leather industry has not been on a scale which one would have wished. The indigenous leather industry was in an extremely primitive condition, and only inferior kinds of leather were produced. The establishment of the Government Harness and Saddlery Factory at Cawnpore in 1860 marked the beginning of the adoption of European methods of tanning. Private enterprise led to the starting of factories for making finished leather goods at Cawnpore and in Bombay and Madras, but these were also mainly dependent upon contracts from the military department.

The leather industry received a stimulus from the introduction of chrome tanning. A Government factory was started in Madras in 1903 to manufacture leather by chrome tanning as an experimental measure. The success of this experimental factory led to the adoption of chrome tanning in tanneries which used bark only. There were, in 1935, 27 factories engaged in processes connected with hides and skins, of which 23 were tanneries and 11 manufactured leather and shoes.

Effects of
World
War I.

During World War I no less than 60 per cent. of the total number of army boots manufactured in England was made of

Indian leather.¹ The control of this industry by the now defunct Indian Munitions Board resulted in the production being fully doubled. The Indian Industrial Commission expressed the opinion that the leather industry could be stimulated by the institution of technical training and by experimental work on a considerable scale. Three research institutes were started—the Leather Trades Institute at Madras, Government Leather Working School at Cawnpore and the Calcutta Research Tannery—with the object of helping the development of the local tanning industry by technical research.

With a view to making the raw material available at low price, the Government in 1919 imposed an export duty of 15 per cent. on hides and skins, with the proviso that a drawback of 10 per cent. should be given in the case of exports to any part of the British Empire. This duty was opposed by the Indian public. The Fiscal Commission and the Indian Taxation Enquiry Committee both recommended its early abolition on the ground that protection to the tanning industry should be granted, if considered desirable, by the direct method of import duties on foreign tanned leather, rather than by injuring the raw material producers who were deprived of a large foreign market. In 1923, the export duty was reduced to 5 per cent. only. In 1927, the Legislative Assembly, rather strangely, sided with the owners of tanning factories and opposed the abolition of the export duty. By 1933, however, the export of hides and skins had very considerably declined, and consequently the export duty on raw hides was abolished in 1934. The export duty on raw skins was abolished a year later.

Export
duty on
hides.

The industry made rapid progress during World War II owing to a spectacular rise in the demand for shoes for the armed forces. The total production in 1946 stood at 86 lakhs shoes as against 72 lakhs shoes in 1939. With the growth of production within the country, the import of shoes began to decline. In 1946 India exported about 487 thousand pairs of shoes to other countries.

Progress
during
World
War II.

The Partition adversely affected the progress of the industry, which lost a large source of raw material and a big slice of the

¹ *Journal of Indian Industries and Labour*. Ledgard, "Leather Trades and Shoe Manufacture in India," p. 170.



Effects of
Pakistan.

market. The temporary diminution in the supply of raw material ought to be overcome within a reasonable period. The scope of expansion is great.

Oils
and oil
industry.

Oils and oil-seeds form useful industries throughout the country, but there is ample room yet for their further expansion. The cotton-seed industry has materially helped to make the United States one of the foremost among the industrial nations of the world. The export of cotton-seeds involves an immense loss to the country, and the development of industries in connection with them is sure to be useful both in a direct and in an indirect way. It is worth noting that oil-seeds and oil constitute an important exchange-earner.

These oil-seeds produce many useful articles that are required for making soap and glycerine, for serving as lubricating agents and as cooking ingredients. In recent years there has been a great increase in the number of mills worked by steam and other mechanical power, especially in the case of mustard oil, castor oil and groundnut oil. An extension of the oil industry would enable the oil-cake to be retained in this country.

Vanaspati
oil
industry.

A particular type of industry which has developed in recent times is the *Vanaspati* oil industry. From a small beginning in 1930, it has attained an important place in the industrial structure of the country. The prohibitive prices of ghee and the easy supply of cheap raw materials are the two most notable contributory causes of the rapid growth of this industry during the Second World War. In 1948 the total production was nearly 1½ lakh tons as against 18,000 tons in 1935.

At present the industry has to face many difficulties. The export of groundnuts implies a corresponding loss of raw materials to the industry. The groundnut export policy should, therefore, always take adequate consideration of the needs of the *Vanaspati* oil industry. Secondly, the shortage of tin-plate for the manufacture of *Vanaspati* containers acts as a serious handicap. The Tinplate Company produces only a small number of containers per year. The Government of India should therefore encourage the establishment of a modern steel strip mill in order to cater for the increasing demand for tin-plate containers for the *Vanaspati* and many other industries.

In the metal industries many of the local handicrafts attained considerable magnitude in the remote part. "The high quality of native-made iron," said Sir Thomas Holland, "the early anticipation of the processes now employed in Europe for the manufacture of steels, and the artistic products in copper and brass gave India at one time a prominent position in the metallurgical world."¹ The art of smelting iron, of welding it, and of making steel was known to the Hindu "from time immemorial".

Metal industries.

Iron-smelting was at one time a widespread industry in India. In ancient times the people of India acquired a fame for metallurgical skill, and the reputation of wootz steel, which was certainly made in India long before the Christian era, spread far and wide.² But the wasteful indigenous process of smelting iron in small furnaces with wood fuel was a great drawback on the growth of the iron industry. The manufacture of pig-iron and steel in India by European processes was marked by conspicuous failures during the nineteenth century. The first scheme that proved a financial success was the Barakar Iron Works, started in 1874 and acquired by the Bengal Steel and Iron Company in 1889. Even here profits ensued only after the lapse of 25 years since the starting of the works.

In ancient times.

The growth of the steel industry of modern India was mainly due to the activities of the Tata Iron and Steel Company, which was established at Sakchi (later known as Jamshedpur) in 1907. The Company was planned on bold lines and from 1911, when it first commenced operations, it has been producing large and steadily increasing amounts of iron and steel goods. As in the case of the cotton and jute textile industries, World War I gave an effective stimulus to the iron and steel industry. Large quantities of railway materials required for the eastern theatre of the war were purchased in India, and encouraged by this considerably increased demand, the Tata Iron and Steel Company launched upon a scheme of expansion which was finally completed in 1924. Later, there arose other companies manu-

Modern developments.

¹ Sir Thomas Holland rightly observed: "In ancient times the people of India seem to have merited their fame for their metallurgical skill." (*Vide his Sketch of the Mineral Resources of India*). Steel was in extensive use in India several centuries before the Christian era.

² *Quinquennial Review of the Mineral Production of India*, 1919-23.



facturing iron and steel. Of these the Indian Iron and Steel Company, the Bhadravati Iron Works and the Indian Steel Corporation deserve mention.

In the early years of the present century the average annual production of pig-iron was very small. In 1919, the production was 232,268 tons. In 1929-30, the yield of the Indian factories increased nearly six-fold. In 1936-37, the total production was a little over 15½ lakh tons. In the same year the production of steel ingots amounted to 8½ lakh tons while that of finished steel was 6½ lakh tons.¹ It is also noteworthy that the imports of foreign iron and steel into India came down to 360,000 tons in 1936-37.

Protection.

In this development of the Indian iron and steel industry, perhaps the most important part has been played by the protection extended to it in 1924 and continued nearly for a quarter of a century. The Tariff Board in 1924 observed: "The market is large, and with the expansion of demand, provided there is an adequate extension of transport facilities, there would be room for two or three steel-works each with an output comparable to that of the works at Jamshedpur."² In recommending the case of this industry for protection, the Tariff Board pointed out that—

1. India possessed great natural advantages for the manufacture of steel owing to the richness and abundance of iron-ore deposits and the comparatively short distance which separated them from coal-fields;

2. the continued existence of steel manufacture in India was in grave jeopardy, and unless protection was given there was no prospect of future development; and

3. the natural advantages were so great that eventually steel manufacture in India should be possible at as low a cost as in any other country.

The Tariff Board also emphasised the importance of the industry as a key industry and as a pre-requisite of safety and defence. The Government, accepting these recommendations, imposed in 1924 duties on foreign imports of certain varieties

1924.

¹ *Review of the Trade of India, 1936-37.*

² *Report of the Tariff Board regarding the Grant of Protection to the Steel Industry, 1924, p. 15.*



of steel products and granted bounties on the manufacture of certain others. In 1925, on account of a marked fall in the 1925. prices of foreign imports additional bounties were temporarily granted. In 1927, protection was renewed, and for the first time 1927. different rates of duties were imposed upon British and non-British steel, on the ground that British steel was mainly of the standard specification, and that a rise in the price of standard specification steel would cause difficulties to industries depending on it. In 1932 the duties had to be revised to give 1932. effect to the terms of agreement reached at the Ottawa Conference. In 1933, there came another Tariff Board enquiry, and as the result of the recommendations of the Board the protective policy continued to operate till 1941.

The history of the iron and steel industry from 1939 is a history of continuous progress and development. An analysis of the growth of the industry during this period shows certain significant developments. In the first place, the production of the industry increased considerably. The industry experienced a long spell of expansion during the World War II, following World War II. large Government, Railways and overseas orders. The rapid expansion of ordnance factories and heavy and light engineering works placed a great pressure upon the industry. The total production increased continuously till it reached the maximum figure of 11,66,200 tons in 1943. After this peak period production gradually declined and reached a considerably lower level in 1947. In 1949, the position was slightly better, the production of finished steel in that year being 922,000 tons. Since the beginning of the war, the Tatas have not only been improving The Tatas. the quantity of steel ingots and finished steel, but also producing diverse products made of finished special steel. A Wheel Tyre and Axle Company is being operated by the Tatas which supplies to our Railways a considerable part of their requirements of wheels and axles at rates very much lower than foreign prices. Some even claim that India is self-sufficient in respect of these goods.

The Tatas are also producing special alloy steel called Tiscor and Tiscrom. Tiscrom is an alloy of high tensile strength containing chromium, manganese and copper. During the period of the war, the Tatas added to their manufacture a



considerable number of special alloy and tool steels which made imports of these articles unnecessary. They are also making high silicon sheets required for lamination purposes in motors at the rate of about 1,800 tons per year. The Tata Locomotive and Engineering Co., a subsidiary of the Tatas, has successfully initiated the manufacture of boilers for locomotives and road rollers.

They also made special alloy steel products for meeting the direct demands of the war, *e.g.*, bullet-proof armour plates, special steel for cartridge cases and for rifle and machine gun magazines, stainless steel for surgical instruments, etc.

The Steel Corporation of Bengal, the second biggest steel-producing unit in the country, began operations during the Second World War and rendered unique services to the State and the Allies. But for its construction, before the war, the country would have been in a bad way as regards the supply of steel. Two particulars may be noted about this unit. It has suffered more from labour troubles than other units, which explains its present low production. But it has a large unused capacity in its finishing departments. The Priorities Committee of the Cabinet has approved of the Corporation's expansion plans which propose to expand the output of semi-finished steel by 2,00,000 tons, at an estimated cost of Rs. 5 crores in the first stage and by 2,20,000 tons at an estimated cost of Rs. 12 crores in the second stage.

The other manufacturers of iron and steel are the Indian Iron and Steel Company, the Mysore Iron and Steel Works, and the Bengal Iron Company. The Indian Iron and Steel Company of Asansol produces pig iron, steel and ferro-manganese. The Mysore Iron and Steel Works was started by the Government of Mysore about 30 years ago and has been carrying on its activities on a comparatively small scale. The Bengal Iron and Steel Company was established in 1875; it produces cast-iron pipes, castings, sleepers and chairs for railway lines.

It must be noted that India has not yet attained self-sufficiency in steel. In the past she had to depend for her supply of steel to a great extent on external sources. But gradually this dependence has declined. Steel is the foundation of modern

Steel Corporation of Bengal.

Other factories.

Self-sufficiency not attained.

industrialism. The Government of India have undertaken to make India self-sufficient in steel within a reasonable period. For this purpose, they propose to establish two new steel plants which are expected to produce one million tons per year.

The existing firms also are going to carry into operation their development plans in the immediate future. The Tatas envisage a capital expenditure of Rs. 6.1 crores for replacement of depreciated machinery as well as for additions to existing capacity. The effect of these measures will be to increase production by 1 lakh tons. The Steel Corporation of Bengal propose to spend Rs. 17 crores for developmental and replacement purposes. The Mysore Works also plan to increase capacity from the present level of 28,000 tons to 1 lakh tons. The Government of India have decided to assist these companies so that their development plans may be a success. The main problem today is to raise India's production so that she need not have to depend on the foreign supply of steel at all.¹

Develop-
ment Plan.

While on this subject, we may note that the development of the Government policy with regard to the industries depending on the iron and steel industry has proceeded on lines similar to those relating to the main industry itself. Among these subsidiary industries, we may mention the manufacture of tinplate, enamel ware, wire and wire nails, iron and steel castings, fabricated steel, tools and implements, railway wagons, etc. When protection was granted to steel in 1924, it was anticipated that the rise in the price of steel would injuriously affect the industries using steel as raw material. To protect the interests of the engineering industry, duties had to be imposed on the imports of fabricated steel from abroad. Bounties were granted to the wagon industry and heavy import duties were levied on imports of foreign tinplate. Similar protection was granted to the manufacture of wire and wire nails.

Subsidiary
industries.

After the Second Report of the statutory enquiry into the steel industry was issued by the Tariff Board in 1927, the Government stopped the grant of bounties to the wagon industry and decided to help the industry by purchasing all wagons in India. In the case of wire and wire nails the Tariff Board

¹ D. C. Driver, Lectures delivered at the Calcutta University.



recommended the withdrawal of protection, but the Government was prevailed upon to reimpose the protective duties. The subsidiary industries thus received stimulus from the Government, and these form today an important part of the iron and steel industry of India.

Engineering
industry.

In India, industries based on technical science have been disregarded. The imports of machinery are due to the absence of a complete system of engineering industries based on the large-scale manufacture of iron and steel. There is a fairly large number of engineering workshops and railway workshops to meet the rapid expansion of modern industrial ends. But engineering shops in India are devoted mainly to repair work or to the manufacture, mainly from imported materials, of comparatively simple structures. This is undoubtedly one of the greatest industrial deficiencies of India. If a forward policy of industrial development is to materialise in the future, the development of engineering industries is urgently called for.

Machine
tools.

Machine tools industry owes its origin to the impetus given by World War II. Before the war there was no real machine tools industry in the country. In 1947 there were 24 graded firms and about a hundred ungraded firms manufacturing machine tools. With partition the industry was disrupted and its capacity reduced. In 1949 there were about 12 graded and about 50 ungraded firms in India. The present production does not meet more than 3 per cent. of the total requirements of the country. The Government of India in 1949 entered into an agreement with a Swiss firm for technical assistance in the matter of machine tool manufacturing. This factory is to be located in Mysore. The agreement envisages the manufacturer of machine tools in five stages spread over a period not exceeding 6 years. It is estimated that the total output of the factory in full production will be worth about Rs. 8 crores.¹

Automobile
industry.

The automobile industry in India is in an infant stage. Before World War II there were only two factories in India, viz., General Motors Ltd. and Ford Motors Ltd., who were engaged in the assembly of motor cars and trucks. At present

¹ Industry and Supply Bulletin, January-March, 1949.

in addition to these two factories there are eight factories which are assembling motor vehicles. Amongst the firms Hindusthan Motors Ltd. of Calcutta and the Premier Automobiles Ltd. of Bombay are aiming at the production of complete cars in India under licence from foreign manufacturers. It is expected that other parties will also fall in line with them. India, even now, is largely dependant on imports to meet her requirements of automobiles.

A strong automobile manufacturing industry is the training-ground and a stepping-stone to the manufacture of tractors and aircraft, and in case of a defence emergency, to the manufacture of jeeps, tanks and army aircrafts. It is, therefore, imperative that India now should take steps to build up a strong indigenous automobile industry. We may note here that with the protection and assistance given to this industry by the Government it is expected that Indian-made cars and trucks will be on the roads within six years.

A great necessity.

The necessity of having a cycle industry in India has been keenly felt for a long time past. The idea took a practical shape in 1938 when the India Cycle Manufacturing Company Ltd. of Calcutta placed orders in Germany for machines. But the war interrupted their operation. In 1939 two other companies were registered as public limited companies with the object of manufacturing cycles. All these companies helped the Government in their defence efforts. The production of the Indian manufacturers was at a low ebb during World War II. The normal demand could not be met owing to restricted import and low indigenous production. In 1948-49 India produced 64,740 cycles and imported 264,042 cycles. The Industry was given Tariff protection in 1946 in the form of a protective duty of 24% imposed on the bicycles imported from the U.K. and 36% on those imported from elsewhere. Protective duty was increased in 1949 to 60% on the imported products from U.K. and 72% from hard currency areas. It is expected that these measures will provide an effective stimulus to the growth of the industry.¹

Cycle industry.

Copper and brass vessels, which are necessary articles in every household, are even now manufactured in every district. The

Copper, brass, aluminium, etc.

¹ Industry and Supply Bulletin, April-June, 1949.

Artistic
work.

chief centres of manufacture are: Murshidabad, Srinagar, Benares, Mirzapur, Moradabad, and Mysore. The artistic and jewellery works of Cuttack, Madura, Poona, and other cities are famous all over India. Business in these arts is usually done on a small scale by blacksmiths and silversmiths, of whom one or more are found in every town and village. Cutleries have been in existence for some years in different parts of the country. The lock-works of Aligarh and Hathras have been doing very good business. The manufacture of steel trunks is becoming a very useful industry. The aluminium industry of Madras has achieved great progress during the last forty years. In West Bengal large-scale manufacture of aluminium ware has been carried on successfully for some time past.

Glass.

The manufacture of glass by the indigenous method existed from very early times. Bangles are made of crude glass obtained from *reh* or saline deposits on barren land. The bangle industry of Firozabad attained considerable importance during the early years of the twentieth century. But these factories were mostly worked on antiquated methods. Flasks, ink-pots, and such other small things are blown from crude glass. Glass factories on modern lines were started in several places, some of which had, however, to be closed. The factories in Upper and Western India have to work under one great disadvantage, namely, that coal for the furnace has to be brought from a great distance.

Older
methods.

Modern
methods.

The glass industry also required high-grade technical knowledge. Mr. Fox expressed the view that glass factories for the manufacture of glass bangles, bottles, scientific glassware and tableware, if established in the Bengal coal-fields or in Calcutta, have the greatest advantages against imported goods. The reasons are mainly that fuel is cheap, and that a large market for glass is in close proximity.¹

Subsequently, factories were started almost all over India and they turn out mainly plain articles for domestic use, such as tumblers, bowls and dishes, lampware, inkpots, bottles, phials, and flower-vases. The Tariff Board enquiring into

¹ C. S. Fox, *Notes on Glass Manufacture*, p. 48.

the conditions of the glass industry found 59 factories working in 1932. Some measure of protection was recommended by the Tariff Board, but the Government did not accept the proposal on the ground that the main raw material, namely, soda ash, had to be imported from abroad. An indirect help was rendered by the grant of a rebate of the import duty on soda ash. In 1936-37, the total value of the glass goods imported into India was Rs. 128 lakhs.

Rapid progress, however, was achieved by the glass industry in the course of the next few years. By 1939 India produced as much as 60% of her glass requirements. At present there are about 250 factories and the production reached the peak figure of 1.20 lakh tons in 1944-45. The production thereafter decreased considerably because of the difficulties experienced by the industry in different directions. In addition to catering for the internal demand, India now exports glassware to Pakistan, Ceylon, Australia, the Middle East and the Far East.

Rapid progress.

The Tariff Board in 1949 inquired into the question of granting protection to the glass industry. The Board found that the manufacture of sheet glass was the only section of the industry which was in need of protection and recommended the conversion of the present revenue duty of 45% ad valorem to a protective duty at the same rate which should remain in force for a period of two years. The Government accepted the recommendation of the Board and propose to give them legislative effect in the near future.¹

Woodwork and carpentry are still, in the main, hand industries. Saw mills have, however, been established in many parts of the country.

The once flourishing chemical industries of India ran the risk of being almost stamped out by the foreign manufacturer. The foreign chemical product obtained a supremacy in India, however, not merely because it was cheaper, but mainly because it could be depended on for uniformity of quality. India imported chemicals of the value of more than a crore of rupees a year on the eve of World War II. Simple drugs and extracts were manufactured by some factories on a small scale, but for the greater portion of her requirements she was dependent upon

Glass factories.

¹ Report of the Ministry of Commerce, 1949-50.



foreign countries. The industrial development of India has been greatly handicapped by the lack of chemical industries in the country. The Indian Industrial Commission observed: "In the absence of any means for producing from purely Indian sources, sulphuric, nitric, hydrochloric acids and alkalis, our manufactures, actual or prospective, of many things such as paper, drugs, matches are dependent upon imports which under war conditions might be cut off."¹

Heavy
chemicals.

It is recognised that the manufacture of heavy chemicals is a key-industry, and their development is urgently called for. The Chemical Services Committee expressed the opinion that there was an enormous field for the production of carbon compounds in India. Dr. Watson suggested the desirability of establishing the coal tar industry in this country, for it was from coal tar that all countries obtained their high explosives, their synthetic drugs and their synthetic dyes.² Several factories—the most notable among them being the Bengal Chemical Works of Calcutta and the Tata Chemicals—have for some time past been doing very good work in the way of reviving the chemical industries of India.

Recent
progress.

Some progress has been made in recent years in the manufacture of the acids ordinarily required for different purposes, particularly of sulphuric acid. India has the advantage of raw materials and of the fact that foreign supplies have to bear a heavy transport charge. But in spite of these advantages the progress has not been rapid, first, on account of the lack of power, plant, and technicians and, secondly, on account of the strong competitive position of German and British syndicates. The Tariff Board in 1928 recommended the grant of protection to the manufacture of certain chemicals on account of the importance of the industry for national development. These recommendations were made effective by the Government by the Heavy Chemical Industry (Protection) Act of 1931. In 1937, the Imperial Chemicals (India) Ltd., formed a project for large-scale manufacture of alkalis in India.

¹ *Report of the Indian Industrial Commission*, p. 53.

² *Vide Watson, Chemical Research in India*, p. 187. *Journal of Indian Industries and Labour*.

The question of the continuance of protection was referred to the Tariff Board in 1937. The Board recommended continuance up till 31st March, 1946, in order to safeguard the industry against foreign competition, especially dumping from Japan. Car-pentry.

During the Second World War, India made a good start in the manufacture of basic chemicals, particularly heavy chemicals. Sulphuric acid is produced in India from foreign sulphur. In 1948 about 80,000 tons of sulphuric acid were produced. All this acid is not consumed in the country as the industries consuming the acid have not developed proportionately. The Government of India have directed that the surplus acid should go to make additional super-phosphates, the total production of which has reached the figure of 30,000 tons per year. In the near future production of super-phosphate will rise. India also produces sulphate of ammonia, magnesium sulphate, iron sulphate, sodium sulphate, sodium sulphide, zinc chloride and various other kinds of heavy chemicals. She produces annually 2,400 tons of hydrochloric acid. The production of soda-ash which is the basic raw material of glass industry was 28,000 tons in 1948. The production of caustic soda which is largely used by soap, oil, textile, paper and other industries is about 6,000 tons. The production of bleaching powder is handicapped by a lack of adequate quantity of lime of good quality at industrial centres. In 1948 the total production of bleaching powder was about 2,800 tons. Chemical industries. Acids and alkalis.

Perfumes and essential oils are important industries in Uttar Pradesh. Ghazipur, Jaunpur, and Kanauj are famous for the production of *itr* and other perfumes, rose-water, and various kinds of perfumed oils. A few perfumery factories on western models have been established in Calcutta, Bombay, and some other cities. Perfumes, etc.

Soap is manufactured by the indigenous process, and also in factories on modern lines. The first soap factory was established in Meerut by an Englishman in 1887. But the progress of the industry in the following years was inconsiderable. The first World War provided an impetus to the industry, but the output never exceeded 14,000 tons per year. The last war created a situation where Soap.

the industry could grow rapidly. The annual output in 1944 was 140,000 tons, of which 10% was toilet soap. In later years, the technique of production was considerably improved. Consequently, in 1948, the output rose to 190,000 tons. Most of the raw materials are now available in India. The main by-product of the industry is glycerine. The present recovery of glycerine is near about 2,500 tons. The maximum utilisation of the by-product will correspondingly reduce the cost of the main product and thereby will put the industry on a strong foundation. Already the industry is exporting soaps to the Far and Middle East. With sufficient help from the Government and an improvement in the supply of raw materials, the industry promises to open up an important line of production.

Tobacco.

The tobacco industry is very extensive. But it is suffering acutely from competition with foreign products, specially American. The technique of cigar- and cigarette-making has not yet been fully studied. The tobacco industry is vigorous in some parts of the Madras Presidency. The cigarette industry made rapid progress during the second World War. The Indian enterprises in cigarette-making generally turn out articles of inferior quality. Recently, some British cigarette-manufacturing companies have started branch factories in India.

Cement.

Cement is one of those industries which have been encouraged by the changed conditions of the inter-war period. Before World War I, the amount of cement produced in India was small, and the needs of the country were mainly satisfied by imports. The industry received a great encouragement since World War I on account of the wide use of cement and concrete for all sorts of structural works. The demand for cement increased manifold and, consequently, capital came forward in large quantities to be invested in the large-scale manufacture of cement. On the other side the production of cement in India increased from 945 tons in 1914-15, to 997,000 tons in 1936-37. The manufacture was carried on mainly in Kathiawar (at Porbandar), Rajputana (at Bundi), the Madhya Pradesh (at Katni) and in Bihar on the bank of the river Sone.

The Tariff Board took up the enquiry into the conditions of the cement industry in 1924. They found that the industry

satisfied to a considerable extent the first condition laid down by the Fiscal Commission, namely, that the industry demanding protection should possess the advantages of cheap raw materials, labour, fuel, and a wide market. Protection was not, however, recommended on the ground that there was a good deal of overproduction of cement in India, leading to competitive price-cutting; consequently, the price of cement in India depended on internal competition alone, and the price of foreign cement had no effect on the Indian industry. Bounties were recommended in certain cases but the Government declined to take any steps. Subsequently, however, the internal competition was regulated by the formation, first, of the Cement Marketing Company of India, and later, of the Associated Cement Companies of India.

The cement industry received further impetus during the last war. The production of cement showed a steady rise till 1945. Later on it showed some fall due to transport difficulty and scarcity of good quality coal. In 1948 the production was a little over 15 lakh tons. The industry has a great future as the country provides a huge market. It is satisfactory to note that about 32 new schemes are going to operate in the near future.

Impetus
during
World
War II.

Another industry that has seen its development in the inter-war years is the match industry. The earlier attempts were all failures, and a successful match industry could be started in India only after 1922, when a revenue import duty of more than 100 per cent. was imposed on foreign matches. This served the purpose of protection, and, encouraged by this stimulus and by the existence of a very large and inelastic home market, factories came into existence to supply the entire needs of the people. The revenue duty was converted into a protective duty in 1928 on the recommendation of the Tariff Board. The prohibitive duty enabled the Indian firms to meet almost the whole demand, and the imports of matches came down from 13,667,000 gross of boxes in 1921-22 to 55,000 gross of boxes in 1936-37. With the outbreak of the second World War the prices of raw materials for the match industry began to rise steadily as shipping position became more and more difficult. The prices of matches rose in proportion and the Government of India found it necessary to control the

price of matches in March, 1942. Price control was withdrawn in 1946 with the improvement in the supply of matches. In 1948, there were about 200 match factories manufacturing over 31 million gross boxes of 50 sticks. To-day, the match industry supplies not only the entire internal requirement of matches but also caters to the needs of some neighbouring countries.

Matches.

The factories encouraged by the import duty were mainly financed, owned, and managed by a large Swedish combine. There was a strong opposition to the policy of protecting the match industry, on the ground that the Indian consumers were made to bear a heavy burden for the benefit of Swedish capitalists. Complaints of monopolistic devices and of rate-war were sometimes made against the Swedish combine. It is a matter of some satisfaction that in recent years the business of the Swedish Combine has come to be represented in India by the Managing Agency of a firm called "The Western India Match Co. Ltd.", whose Board of Directors is mainly composed of prominent Indian businessmen. Nearly half of its capital is subscribed by Indian investors.

Statistics
of Indus-
trial Pro-
duction.

The following statistics of industrial production in 1949 will provide the reader with a rough idea of the industrial development of the Indian Union.¹

Cotton textiles—

(a) Yarn	...	...	136	crore lbs.
(b) Cloth	...	...	390.40	crore yards.
Steel (ingots and castings)	...	...	13.53	lakh tons.
Coal	...	...	314.57	lakh tons.
Jute	...	...	9.46	lakh tons.
Salt	...	...	55.6	thousand mds.
Cement	...	...	21.02	lakh tons.
Sugar	...	...	10.45	lakh tons.
Paper and paper boards	...	...	1.03	lakh tons.
Cigarettes	...	...	2189.09	crores (nos.).
Matches	...	...	5.25	lakh cases.
Plywood	...	...	476.2	lakh sq. feet.
Kerosene oil	...	...	115.92	lakh gallons.
Petroleum	...	...	662.97	lakh gallons.

¹ Monthly Statistics of Production of Selected Industries of India (Government of India), January to March, 1950.

PRODUCTION

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Enamelware	65.90 lakh pieces.
Woollen manufactures	210 lakh pounds.
Storage Batteries	106.00 thousand (nos.).
Sheet Glass	...	...	34.51 lakh sq. feet.
Sulphuric Acid	...	...	99.45 thousand tons.
Alcohol—			
(a) Industrial	...	...	29.88 lakh gallons.
(b) Power	...	...	42.29 lakh gallons.
Gold	...	...	1.61 lakh ozs.
Bicycles	...	...	87.92 thousand (nos.).
Hurricane lanterns	...	...	17.28 lakh (nos.).
Sewing machines	...	...	25.03 thousands (nos.).
Machine tools	...	...	47.29 value in lakh rupees.
Electric fans	...	...	1.79 lakhs (nos.).
Electric lamps	...	...	136.40 lakhs (nos.).
Chrome tanned hides	...	...	580½ thousands (nos.).

The most important steel industries are in West Bengal, Bihar and Mysore. Of the cotton mills, the largest number is to be found in the Bombay Presidency. The cotton mill industry has also been developed in many of the other States of the Indian Union. Cotton-ginning factories largely preponderate in Bombay and Berar. The various branches of the cotton industry give employment to many lakhs of persons. West Bengal has a virtual monopoly of the jute industry with over 90 per cent. of the total number of mills in India. Silk mills and filatures are found chiefly in Bombay, Mysore, Kashmir, East Punjab and West Bengal, and the woollen mills in Uttar Pradesh, Bombay, Mysore, and East Punjab. Flour mills mostly occur in East Punjab and Bombay, and sugar factories in Uttar Pradesh and Bihar. Rice mills are most numerous in Madras and West Bengal. Iron and brass foundries now exist in most of the States of the Indian Union.

The space at our command does not permit us to give a full account of all the industries of India, and we have to content ourselves with a brief and rapid survey of the most important of these. It shows that considerable advance has been made in the direction of an industrial regeneration.

Distribu-
tion of
industries
in the
States.

Agriculture vs. Manufactures.

The two supplementary to each other.

Can manufactures succeed in India?

In the beginning of the present century doubts were expressed in certain quarters in regard to the possible success of the industrial movement. It was held by some that nature had destined India to be an agricultural, and not a manufacturing, country.¹ This theory has now been completely exploded. Agriculture and manufactures, instead of being opposed in interest, may, in a large country like India, be really helpful and supplementary to each other.² The growth of manufactures will not necessarily mean the neglect of agriculture, but, on the other hand, will give a stimulus to its further development. Manufactures will flourish, not by withdrawing from agriculture the factors at present employed in its production, but by bringing into use uncultivated land, unemployed labour, and fresh capital. If the combination of agriculture and manufactures has been found possible in America, there is no reason why it will not succeed in India.

There are others who think that the circumstances which have favoured the growth of industries in European and American countries are not present in India. Let us examine the statement. As for the physical and moral characteristics of the people, they are not the natural monopoly of any nation or race. The superiority, in some particulars, lies with India; in others, the deficiencies may be overcome with the aid of science. Most of the qualities which make for success in industry are possessed by the people, and a little effort only is needed to bring them into active operation. India possesses a great advantage in her relatively low cost of living. The Indian Industrial Commission observed: "The political and economic conditions of India in the past have created a large export and import trade, and this trade has brought about the present industrial position."³ Now that India has achieved freedom,

¹ Sir Patrick Playfair, on the occasion of the Annual Dinner of the London Chamber of Commerce, 1912, said: "India must be in the main an agricultural country raising crops in great quantities and of great value." But Sir Theodore Morison replied: "The people of India were not content to be hewers of wood and drawers of water. They wished to take their part in manufacture."

² Latifi wrote thus in *The Industrial Punjab* (published for the Punjab Government): "In the Punjab, the two [i.e., agriculture and manufactures] are so intimately allied that permanent improvement in either is impossible unless they grow in close interdependence."

³ *Report of the Indian Industrial Commission*, p. 49.



many of her difficulties are likely to disappear in the near future.

The possibilities of industrial development are indeed immense and India, with her command of the raw materials, ought not only to supply her own needs but to furnish other countries with manufactured products. But to attain this end, an enormous increase of capital, the proper training of labour, and the adoption of improved methods of work will be necessary.

From our review of the industrial situation it has become clear that the system of small-scale production still greatly prevails in India, but in a large number of industries production on a large scale has already become a success. The question whether the people of India should revert to their old system of handicrafts, or adopt, to the full extent, the new system of production by machinery and large capital, involves so many knotty points that it is not possible, or even desirable, to answer it in an off-hand way. It is undeniable that the efficiency of the productive agents is greater in many ways in large enterprises than in small ones.² But there also are some disadvantages even from the economic standpoint. It is, however, chiefly on moral and social grounds that objection is raised to the system of large-scale production. Under that system men tend to become mere machines,—drudgery is destructive of all initiative and individuality. Again, the massing together of large numbers of people leads to physical and moral ill-health. Further, while the system of small-scale production enables a

Large-scale vs. small-scale production.

² The advantages of large-scale production may be summarised as follows: (1) Better classification of labour according to its capacity; (2) the use of up-to-date and specialised machinery; (3) applied machinery can be so adjusted as to give full employment to the motive powers; (4) improvements can be more readily adopted; (5) inventions can be encouraged; (6) expert skill can be employed to a greater extent; (7) better selection of materials and of processes is possible; (8) purchases are made in large quantities and hence cheap; (9) sales are wholesale and hence not troublesome,—and often aggregate profits are higher, though the rate of profits may be low; (10) competent managers may be appointed for the control of the different departments; (11) the head of the firm is left free to deal with the larger questions, and to exercise a general superintendence; (12) by-products are utilised, and even small things are not thrown away. The economic disadvantages are: (i) very great loss arises from a change in the demand for commodities; (ii) the cost of superintendence is often large; (iii) the interest of the paid managers is much less than that of the small proprietor; (iv) large industries are not possible or profitable unless there is a sufficient demand.

Merits and defects of large-scale production.



large number of people to live independently, the large-scale system raises a few, often at the expense of the many. Already we find a revulsion of feeling in the West among some of the thinkers. In countries where the capitalistic system has been pushed to an extreme, wide-spread poverty is found in the midst of the greatest abundance.¹

This is undoubtedly a very complex problem. It is obvious that an industrial revolution has already made some strides in India. Whether such revolution is a desirable thing or not is a question on which opinion is divided. There are some who not only welcome the revolution, but are even prepared to hasten it as much as they can; there are others who curse it and wish that it could be stopped. On the one hand, it is believed that the regeneration of the country will come through an industrial revolution; on the other, it is feared that the materialism of the West will destroy the spiritual ideals of the people and deaden the finer elements in their nature. One class of persons look confidently to the change for an economic millennium which will bring untold wealth and immense prosperity to the country; another class are appalled at the prospect of the extreme misery that is likely to come in the train of the revolution.

In the midst of such a conflict of opinions, the economist would naturally find himself in a difficult position when called upon to give advice. On a careful consideration of the pros and cons of the matter, he would probably find that an element of truth underlies each of the two rival sets of opinions. He cannot deny that in the West enormous wealth stands side by side with abject poverty. He cannot forget the fact that the Industrial Revolution in England and other countries was accompanied by great evils. He would recognise that competitive economics—under which there is a tendency for “the rich to grow richer and for the poor to become poorer”—may be

¹ “The tramp”, wrote Henry George, “comes with the locomotive, and almshouses and prisons are as surely the marks of ‘material progress’ as are costly dwellings, rich warehouses, and magnificent churches.” He went on to observe: “The association of poverty with progress is the great enigma of our times. It is the central fact from which spring industrial, social, and political difficulties that perplex the world, and with which statesmanship and philanthropy grapple in vain.” Henry George, *Progress and Poverty*.

The
industrial
revolu-
tion.
Opinions
for and
against it.

Element
of truth
in each
view.



unfair in its behaviour towards the weak. He would be alive to the grave danger of the new system affecting the simple life of the people. At the same time he would not overlook the simple facts, namely, that the industrial change has already made its appearance without any invitation from the people, that it is not in the power of anybody to prevent it, that it is bound to grow and expand against all odds, and that if the people of the country will not take advantage of it, others will. The only advice which the economist can, in such circumstances, offer to the people would be to ask them to take things as they are, instead of fighting against the inevitable, to profit by the experience of other nations, and to try and minimise the evils of an industrial change. He would even try to harmonise the old and the new, by taking the good from each and eschewing the evil of both.

General
con-
clusion.

One of the chief means by which the evils of capitalism may be minimised in some degree is the adoption of the principle of co-operation.¹ Co-operation has produced great results in Europe and America, and there is no reason why it should not succeed in India.² Co-operation, however, presupposes the existence of certain qualities, such as business honesty, mutual confidence, and a sense of duty; and they must be cultivated by those who wish to engage in business.

Co-opera-
tion.

Even if the large-scale system be adopted in India, small industries need not die out. Some of the small industries may be made successful with the help of co-operation. Count Alex Karolyi defined the aim of all co-operative work as "the attainment of greater social force through co-operation, greater economic knowledge through practical instruction, and a higher moral development through the need of being equitable." In one class of cases, the small manufacturers possess such inherent advantages that they can keep the cost of production at a very

Small in-
dustries
need not
die out.

¹ It is true that one of the chief features of the industrial revolution is the substitution of competition for the old regulations which used to control the production and distribution of wealth; but it is open to doubt whether unrestricted competition is likely to be a permanent factor in industry in the future.

² For an account of the subject see Fay, *Co-operation at Home and Abroad*, and Holyoake, *Co-operative Movement To-day*. It must be admitted that co-operation has not yet succeeded to the same extent in production as in distribution.

low figure, and can thus withstand the competition of large producers. Japan was, not very long ago, a country mainly of small industries, but recently she has vastly developed the large-scale system. The success of such industries in Japan, however, is due partly to the efficiency of the entrepreneurs as well as the workers and partly to the protection given to them by the State through the system of high tariffs and assistance in various other forms. Sometimes small industries may flourish side by side with large ones, either as meeting supplementary demands or, as in Japan, as producing goods complementary to those produced by the latter. Speaking of the cottage industries of Japan and Switzerland, the Director of Industries, Madras, said: "There fully one-third of the industrial population is engaged in cottage industry—chiefly watch- and ribbon-making—and, if not exactly amassing wealth, is at least maintaining itself in comfort. And all cottage workers are 'linked' with a manufacturer. The manufacturer turns out a very large quantity of finished material in his own mills, but a large quantity is also sent out. The yarn is warped and prepared ready for use, and the cottage worker has thus only to perform those operations in the process of manufacture that experience has shown most remunerative to him; the manufacturer's labour-saving machine does the rest. The worker thus obtains all the advantages of a division of labour, of expert assistance, and of a market as large and constant as a modern sales-organisation can make it."

The importance of the small industries is thus considerable even in these days of large-scale production. In recent years the interests of the small industries have been watched by the Government and also by non-official bodies. In Bombay, in West Bengal, and in the other States of the Indian Union, attempts have been made by the supporters of small industries to secure help and encouragement from all quarters. The Departments of Industries in the different States have done something to help these small industries. Almost all the States have passed State Aid to Industries Acts and, financial assistance is being rendered on small scales.

The value of India's achievement is often exaggerated. Those who look complacently on the enormous increase in the trade



returns, forget that a very large part of the industrial development of the country has been due to foreign capital and enterprise. For a long time the mining industries, the factory industries, and the more important of the industrial arts were mainly in the hands of Europeans. The profits accruing from these industries, instead of accumulating in the country, were remitted abroad, so that the people of India benefited by the establishment of these prosperous undertakings only to the extent that a certain number earned "wages in subordinate positions or by doing coolie work."¹ The situation has considerably changed in recent years, and it is expected that with the advent of political freedom the industrial activity of the people of India will largely increase and the economic position of the country will undergo a complete transformation in the not very distant future.

One of the main causes of the industrial backwardness of the country was the proverbial shyness of Indian capital. During the last half-century, however, there has been a definite tendency on the part of Indian capital to overcome its shyness. Capital has, as a matter of fact, become available for those enterprises which have been able to command the confidence of the investing public. But even now the total amount of capital available in the country falls far short of her actual requirements for the extent of industrial development which is necessary and desirable. This brings us to the much-debated question of Indian *versus* foreign capital. Much of the controversy to which the subject has given rise has been due to a want of clear thinking. On the one hand, it has been maintained that its effect is, in all cases, beneficial. It has been pointed out that at a time when India could not provide even a small part of the capital required for her development, it was foreign capital which helped in the process of development, took all sorts of initial risks, and thus paved smooth the path of future progress. If in those days foreign capital had not come forward, India today would have remained without railways and without many of her important industries. It has also to be admitted that the entry of foreign capital into the country brought in its train the latest method and technique

often exaggerated.

Indian vs. foreign capital.

¹ A. Chatterton, *Notes on Industrial Work in India*, 1905.



from Europe, and thus the educative value of the investment of foreigners' resources in India has also been considerable. If it is once admitted that a speedy development of industries is absolutely essential for India, and if it is found that Indian capital is insufficient for securing this end, it is inevitable that foreign capital should play some part in the industrial advancement of the country.

On the other hand, it has been held that foreign capital must necessarily do harm to the country. The arguments against the unrestricted use of foreign capital are directed not so much against foreign capital itself as against foreign capital controlled by foreign ownership. It is pointed out that the educative value of foreign capital is negligible because the directors are generally all foreigners and they take little interest in training Indians for the higher posts. The fact that the profits go out of the country is also an important matter to be considered. It is also pointed out that Indian concerns are often handicapped in their initial stages by the price-war carried on by competing European firms who find that their vested interests are being endangered. In coastal and inland shipping and in many industrial undertakings such complaints based on hard facts have often been made.

Sir V.
Thacker-
sey.

Sir Vithaldas Damodar Thackersey, himself a very successful businessman, attacked the question about forty years ago with great clearness of thought and force of expression. He rightly observed that no country in the world could make much progress in industrial directions without plenty of capital; in India the possibilities of industrial and commercial development were immense, but the amount of indigenous capital was comparatively small. India could not, therefore, do without foreign capital. It would be a short-sighted policy to reject it on sentimental grounds. But he thought it necessary to form a clear conception of the limits within which the import of foreign capital would be beneficial. The patriots of Japan were eager to attract foreign capital to their country for purposes of industrial development. At the same time, they did not allow the profits of industry to go out of the country. While, therefore, we should avail ourselves of foreign capital, whenever necessary, we ought to take care that we do not pay more for

it than other nations. There are some enterprises which are necessary for the welfare of the country, but for which enough capital is not available within the country, and in such cases it is desirable to have resort to foreign capital. Railways are an instance of the right use of such capital. "But", said Sir Vithaldas, "when we turn to the petroleum industry in Burma, the gold mines of Mysore, the coal mines of Bengal,¹ the tea and jute industries, the carrying trade by sea, and the financing of our vast foreign trade by foreign banks, we come upon another and less favourable aspect of the question of the investment of foreign capital. It is impossible to estimate accurately the amount of wealth that goes out of the country in this manner, though an approximate idea can be had of it from the excess of our exports over our imports, after omitting Government transactions. It must be remembered that so much of this amount as represents merely the interest on borrowed capital should not be regarded in the light of a drain from the country. It is in the huge profits of some investments that we find cause for complaint. The price paid is much too great for the advantages accruing from them to the country."²

Foreign capital not necessarily harmful.

Limits of its usefulness.

A similar view was expressed by Sir Thomas Holland, at one time Director-General of Geological Survey to the Government of India and subsequently a member of the Executive Council of the Governor-General. Speaking of the successful exploitation of the petroleum fields of Burma, he observed, "The one regrettable feature is the fact that the capital required to drill the deep wells has been raised in Europe, and the profits consequently have left the country. In the petroleum industry, as in so many other enterprises of the kind, India will continue to pay an unnecessary and undesirable tax as long as those in the country who possess money will not risk their reserve fund in industrial purposes."³

Sir T. Holland's opinion.

The question received considerable attention about a quarter of a century ago. Arguments which were usually

¹ Sir V. Thackersey is undoubtedly right on this point, for the mines are not perennial sources of wealth like the soil; once exhausted, the mines would yield no more.

² Sir Vithaldas Damodar Thackersey's Presidential Address at the Indian Industrial Conference, 1906.

³ Paper read by Sir T. Holland at the Indian Industrial Conference, 1905.



Arguments
for and
against.

advanced against the inflow of foreign capital into the country were summarised by the External Capital Committee of 1921 as follows:

(a) A certain proportion of the profits would go out of the country.

(b) Investors would always prefer to choose their own directorate, and would naturally be prejudiced in favour of their own nationality. There would be the same prejudice in the selection of the superior staff.

(c) The vested interests created by external capital would acquire enormous political influence which might be utilised in resisting political progress.

(d) Industries of national importance might be monopolised by foreign capital.

(e) External capital might exploit the natural and irreplaceable resources of the country such as minerals.

The External Capital Committee observed: "As a general principle, the inflow of external capital is not only unobjectionable in itself, but is a valuable factor in assisting the economic development of a country and in increasing its wealth and employment"¹ The Indian Fiscal Commission of 1922 pointed out the additional advantage which would accrue to the country from the employment of foreign capital. They said: "Moreover, apart from the intrinsic benefits of increased supplies of capital, the foreigner who brings his capital to India supplies India with many things of which at present she stands urgently in need. It is, on the whole, the foreign capitalist who imports into the country the technical knowledge and organisation which are needed to give an impetus to industrial development."²

Summary.

The position may be summed up in the remark that Indians should utilise foreign capital in the development of the country, and pay the necessary price for it; but they should not allow the country to be exploited by foreign capital for its own gain. It may happen in many cases that, although the people of the country may not be able to provide all the capital required for a new industry, they may yet be able to supply a portion of it.

¹ *Report of the External Capital Committee, 1921, p. 4.*

² *Report of the Indian Fiscal Commission, 1922, p. 158.*

and thus prevent some part of the profits of the industry from leaving the country. This is important, for the enrichment of a country depends, not only on the development of its industries but also on the profits of the industry remaining in the country. Unrestricted admission of foreign capital can by no means be salutary from the point of view of the interests of the nation. The proposal of the majority of the Indian Fiscal Commission did not go far enough in this regard. In their opinion the only exception to the free inflow of foreign capital ought to be where Government granted a concession either in the form of a monopoly or a bounty. But this view is inconsistent. The Minority of the Commission pointed out that "bounties and protective duties are two means of attaining the same end, the fostering of industries in India, and if external capital should be controlled in the one case, it would appear to be equally desirable to control it in the other." It is essential, therefore, that Indian capital should have full scope for investment in Indian industries, and that foreign capital should only supplement it to accelerate the pace of industrial development. Unless companies are incorporated in India in rupee capital, the opportunity for such investment will hardly arise. Provision must also be made for the training of Indian apprentices and the reservation of a large proportion of seats for Indians on the directorate of each non-Indian company.

Suggestion for state intervention.

With the attainment of freedom by India, the situation has radically changed. The possibility of economic domination by foreign financial interests is far less today. In his statement in April, 1949, the Prime Minister of India emphasised the importance of rapid economic development of the country and in this context he viewed the importance of foreign capital. He admitted the necessity of foreign capital in accelerating the pace of economic development of India. He offered certain assurances and guarantees to the foreign investors. He observed that no restriction would be placed on the withdrawal of capital and interest on capital from India and that no discrimination would be made against foreign investors. This definite statement of Pandit Nehru should dispel doubt and uncertainty and attract foreign funds in adequate amounts. The possibility, however, of foreign domination in the economic

After attainment of freedom.

field cannot be brushed aside, altogether, and in our eagerness to obtain capital from outside we should not fail to take proper measures to safeguard the economic interests of the country. Foreign capital to an unlimited extent would certainly prove harmful to India and, we should be very cautious in estimating the foreign financial needs of the country and in obtaining them under proper safeguards.

Foreign investments.

Before the Second World War the amount of foreign capital invested in India was estimated at about Rs. 1,200 crores. Some portion of this capital has since been repatriated. It is difficult to estimate exactly the total amount of foreign capital still invested in India. At the present moment while the most strenuous efforts should be made to mobilise the indigenous capital of India, encouragement should be given to foreign capital to a limited extent and under reasonable conditions.

Re-incorporation with rupee capital.

One noteworthy feature of the recent industrial history of India is the re-incorporation of many European companies in India with rupee capital for Indian business. Several foreign firms have been registered in India with rupee capital and in most cases with a small proportion of Indians on the directorates. The main purpose behind such moves is the desire to secure Government concessions and contracts, but it would be wise on the part of such companies not to ignore India's interests.

Organisation.

The business units of India today are mostly joint-stock companies, and there are generally three different forms of supervision and management. In some cases the directors concern themselves only with the broad questions, and the entire work of management is left in the hands of a paid manager. In others, one or two directors become managing directors, and in return for some special remuneration they carry on the normal duties of management and supervision. But the third type, known as the managing agency system, is the most characteristic form in India. Under this system, the work of management is left under a contract with a firm of managing agents, generally a private partnership, who are paid an adequate remuneration for the services rendered. There are well established and reputed firms of managing agents in India, each of which is acting as agents of a number of companies, sometimes concerned with different industries. The Indian Companies



Amendment Act 1936 has introduced important changes in regard to the organisation and management of joint-stock companies in the country.¹

The problem of industrial labour has assumed a great importance in recent years. The report of the Whitley Commission added more significance to many aspects of the labour problem. During the inter-war years many legislative measures were enacted affecting different aspects of the labour problem, many of which were amended from time to time with the object of ameliorating the conditions of factory labourers. Industrial labour.

The Second World War focussed further attention on the problem of industrial labour and in the post-war period we are witnessing a spate of labour legislation in India for the benefit of workers.²

As economic efficiency is greatly enhanced by education, the subject deserves the earnest attention of all interested in the economic welfare of the people. Industrial education is undertaken in every civilised country either by the state or under state guidance and control. In the United States every single state has a college where technical education is imparted, which is absolutely free. England and other advanced countries spend large sums annually for this purpose. But in India the subject has been sadly neglected, and technical education has not yet been undertaken on anything like an adequate scale either by the state or by individual effort. Industrial education—
In foreign countries.

The question has been engaging the attention of the Government for a considerable time past, which have been collecting information from various sources in order to do something in the matter. Some of the Indian states—the chief among them being the enlightened state of Baroda—early realised the necessity of imparting a sound system of instruction in the arts and industries, and made earnest efforts to remove the long-felt want.

In 1890 an industrial survey was made in Bengal, and in the report the necessity of technical education was clearly pointed out. In Bombay the Victoria Jubilee Institute was started with In India.

¹ The managing agency system will be discussed in greater detail in Part II.

² The subject will be discussed more fully in Part II.



assistance from the Government. Technical schools have been started at some centres in most of the other provinces, but none of them has yet attained any considerable magnitude. Engineering Colleges have also been established in many of the provinces for imparting instruction which is indirectly useful for industrial purposes.

Independent institutions.

Independent efforts were also made in this matter in almost every province. The institutions most worthy of notice were the Bengal Association for the Advancement of Scientific and Industrial Education and the Bengal Technical Institute. The Bengal Technical Institute, now known as the Bengal Engineering College, was started in 1906. The Indian Association for the Cultivation of Science of Calcutta imparts instruction in applied chemistry, applied physics and other similar subjects. The Indian Institute of Science—which owes its foundation to the munificence of the late Mr. J. N. Tata—is proving very useful for the higher study of technical subjects. The Calcutta University has established a Department of Applied Sciences, while a Technological Institute has been started at Kanpur. The various railway workshops offer facilities for the training of apprentices. The Nari Siksha Samiti of Calcutta and similar institutions at other centres are engaged in the training of women in the domestic arts and industries. Much good work is also being done by some missionary societies in different parts of the country, but the standard they have kept in view is very low.

Many large industrial establishments also provide training facilities to apprentices. The Tatas, Burns and Jessops have their own schemes which afford opportunities to the enterprising youth of the country for training. The different State Governments have set up weaving institutes for imparting education in cotton technology. Arrangements have also been made for training in aeronautics and air-craft manufacture. The Delhi Polytechnic Institute is rendering valuable service in the matter of training apprentices. The Sugar Technological Institute of Kanpur and the Institute of Jute Technology and the Jute Research Laboratory of Calcutta are also institutions of great importance.

Sugar Technological Institute.

Jute Technological Institute.



The Government of India have recently decided to establish four higher technical institutes in four regions of the country, which will provide post-graduate studies and research in engineering and technical subjects. Each institute will have accommodation for 1,000 students in the post-graduate classes and 2,000 students in the under-graduate courses. These institutions are estimated to involve a capital cost of Rs. 3 crores and a recurring expenditure of Rs. 44 lakhs a year each. The first of these institutions is about to start work at Hijli in West Bengal under the Principalship of a very distinguished scientist, Dr. J. C. Ghosh.

Higher
Technical
Institutes.

Industrial exhibitions, held from time to time in different parts of the country, besides serving as an advertisement to consumers, produce an educative effect on the minds of producers. They tend to improve the production of goods by helping to expand the craftsmen's ideas. Thus both supply and demand sides derive advantages from such exhibitions.

Industrial
exhibi-
tions.

Industrial research is a necessary adjunct to industrial progress. Without it, industrialisation stands on a weak foundation. Every industrialised country has an extensive system of industrial research, and India can no longer lag behind in this vital sphere of industrial activity. Following the recommendation of the Fifth Industries Conference, the Industrial Research Bureau was established in 1935. The Bureau is responsible for the collection and dissemination of industrial intelligence, collaboration with industries in industrial research, publication of appropriate bulletins, and the organisation of industrial exhibitions. The Board of Scientific and Industrial Research is associated with representatives of principal industries and conducts valuable researches in various industries. The Railway Research Council investigates the possibilities of improved railway operations, elimination of waste and effecting economics in the working of the railways.

Industrial
Research
Bureau.

Railway
Research
Council.

The Government of India planned two years ago for the establishment of eleven National Laboratories in various parts of the country. Of these, five National Laboratories were started during 1949-50. These are the National Physical Laboratory, Delhi; the National Chemical Laboratory, Poona; the National Metallurgical Laboratory, Jamshedpur; the Fuel Research

National
Laboratories.



Institute, Dhanbad ; and the Central Glass and Ceramic Research Institute, Calcutta. These research institutions are carrying on research work in different sections of the industrial field.

A lack of standards is a basic difficulty with Indian commodities in the foreign market. India's exports of many commodities will increase very rapidly if they are properly standardised. The Indian Standards Institute was established by the Ministry of Industry and Supply in June 1947 with the object of improving the standards of Indian products so as to bring them up to the quality levels in competition with foreign products and to standardise the quality of Indian goods for consumption at home and for export abroad. The Institute is already rendering valuable service to the country and is now affiliated to the International Organisation for Standardisation at Geneva.

Partial
failure of
technical
education.

Our brief review discloses the fact that a great deal still remains to be done in the matter of technical instruction. Unfortunately, even what has so far been done has not been attended with complete success. This partial failure has been due to several causes. One reason is that technical instruction did not, in the beginning, attract intelligent and earnest young men. Only those who were likely to be hopeless failures in other walks of life sought industrial education, and it is no wonder that they profited little by it. It is, however, a hopeful sign of the times that in recent years a greater attraction for it has become discernible among the better classes of young men in the country. The second reason for the incomplete success is to be found in the fact that, owing to the lack of proper facilities for practical training, greater attention has been devoted to theory than to practice. It is now being realised, however, that a thorough practical training is indispensable for success in industrial undertakings, and attempts are being made to remove the impediments which prevent students from obtaining it in workshops and factories.¹

Technical
education
and
castes.

The modern system of technical education is different from the indigenous system. Under the old system every young man

¹ Complaints are often heard to the effect that Indian students encounter greater difficulties in getting admission into workshops and factories in England than in Germany and the United States. It is satisfactory to note, however, that the matter is now beginning to engage the attention of the British Government.



used to go through his period of apprenticeship in the profession of his father, and, on his attaining manhood, became a member of his caste-guild. He could not leave the profession proper to his caste and adopt some other. The new system does not recognise distinctions of caste, but admits young men of all classes and creeds. The system of training under caste-guilds has had its day of success ; but under the changed conditions of the modern age it must give place to a more systematic and scientific method of instruction.

Another need of the hour is for a proper system of commercial education. Modern business is a very complex affair, and no one can hope to achieve success in it unless he has thoroughly mastered its principles. The would-be captain of industry should, besides acquiring a general knowledge of economic science, make a serious study of the special problems which arise in this country in regard to the production and exchange of commodities. And a well-conceived method of instruction is needed to give them a sound knowledge of subjects like commercial law, banking methods, import and export problems, foreign exchange, transport and freight, company management, and the conditions of the markets in different countries. Commercial education is also necessary for those who intend to occupy the comparatively inferior positions in the business line. In recent years the matter has attracted the attention of the universities, and instruction in commercial subjects is now being imparted at Calcutta, Bombay, Lucknow, Allahabad and some other universities.

Commer-
cial edu-
cation.

CHAPTER VIII

DISTRIBUTION

1. RENT

Factors
which de-
termine
rent:
custom,
competi-
tion, legis-
lation.

RENT in India depends on the interaction of three forces—custom, competition, and legislation.¹ In ancient days custom was the chief regulator of rents. With the increase of population and the gradual disappearance of the semi-socialistic ideas which used to govern the mutual relations of the members of the ancient village communities, rents began more and more to be regulated by competition. This led to great hardship in many cases, and the Government had to intervene in the interests of the tenant. The rent laws differ in the different provinces, but their general effect is to put a check on the power of the landowner to raise rents at his pleasure. The rent legislation itself starts from a basis of custom, and, while accepting the legitimate influence of competition, seeks to confine it within reasonable limits. It aims not so much at the curtailment of advantages naturally accruing to landlords as at the maintenance of rights already conferred on tenants by custom. Custom is, therefore, still, to a large extent, the foundation of Indian rents. The Ricardian doctrine of rent is not absolutely true of any country in the world. The conditions which it assumes do not exist anywhere in the fullest degree; but in the United States and in England an approximation is made to these conditions, and to that extent the doctrine has application in those countries. In India, they are conspicuous by their absence; and, consequently, the theory can hardly be said to hold good in India. Here rent does not necessarily represent the difference between the produce of any particular plot and the plot on the margin of cultivation, but is a more or less definite charge. Productivity is, no doubt, a factor in the determination of the actual rent of any plot, but it is only one

¹ Vide *The Imperial Gazetteer of India*, vol. iii.



of several factors. Rent is often an element in the cost of agricultural produce.

The actual rates of rent in any part of the country depend on the relative strength of the three factors mentioned above. Where the influence of custom is very strong, it would overcome the influences of other factors. Where it is weak, competition has its way, unless it is checked by law. In sparsely populated tracts, such as Assam, Central Provinces, and Rajputana, rents are low. In some cases, tenants are invited to occupy land by allowing them to hold it free of rent for the first few years. In the densely populated parts—namely, the tracts of heavy rainfall, or those watered by the great rivers—competition for land is very keen, and the landowner is often able, when not prevented by law, to rack-rent the tenants. If custom and law be regarded as constant quantities, any change in the force of competition would necessarily change the rate of rent. In the early days of British rule, the population was much smaller than what it is now. Land was abundant, and tenants were fewer. Rents were, therefore, comparatively low. The population has since considerably increased. Moreover, owing to the decay of manufacturing industries, a larger proportion of the people is now engaged in agriculture than before. The competition for land has thus become keener in most places, and, consequently, rents have gone up. In the larger cities, rents have risen very high.

The relative influences of the factors.

Rents, as a rule, rise when there is a rise in prices, but not proportionally. Generally, there is a time lag. In some cases, however, a rise in prices does not entail an increase of rents at all.

Connection between rents and prices.

Formerly, rents used to be paid in kind. At the time of the reaping of crops the representative of the landlord used to be present in the fields, and a division of the produce was made between him and the tenant. This system, although not free from difficulties, was very advantageous to the tenant. If crops failed, the tenant was not compelled to pay his rent in full,—perhaps not at all. The system still obtains, to some extent, in the remote villages; but cash rents have been generally substituted. These latter are less flexible than rents in kind. The legislative provisions deal mostly with money rents.

Cash rents and rents in kind.

Systems
of tenure:

Per-
manent,

Tem-
porary.

Condition
of pea-
sants of
the two
classes.

"The
magic of
property."

The systems of tenure under which land is held are various. Roughly speaking, the tenants or holders of land may be divided into two classes. The first class possesses, according to immemorial custom, a right of permanent and hereditary occupancy in the land so long as they pay the rent that is due. The amount of rent depends mainly on custom. In some cases, they are entitled to hold land at permanently fixed rates, and their right is heritable and transferable; in others, the rent can only be enhanced on certain grounds. The second class consists of those tenants whose term of lease is limited to a number of years, and of tenants-at-will who may be evicted at the close of any agricultural year. The amount of rent payable by tenants of this class depends on the bargain which the cultivator can make with his landlord.¹

Tenants of the first class, together with those cultivators who own their lands, may be described as peasant-proprietors.² Their condition is incomparably better than that of the cultivators of the second class. In all matters relating to material prosperity, such as the possession of cattle, dwelling-houses, and well-watered fields, the superiority lies on the side of the cultivator-proprietor or the occupancy-tenant. "The magic of property," of which Arthur Young speaks so eloquently, has its effect in India as elsewhere. The peasant-proprietor is the most uncontrolled arbiter of his own lot. The condition of the tenants of the second class is generally wretched. The economic and moral value of the system of peasant-proprietorship is immense, and one of the chief means of improving the conditions of the Indian cultivator is considered to be the conferment on him of at least limited rights of proprietorship.³

Peasant proprietorship has, however, its defects. It entails cultivation only on small plots of land which are not amenable to large-scale production. From this point of view, state-ownership is preferable to all the other systems of land tenure.

¹ Questions relating to land revenue, rent, and tenancy will be discussed in Part II.

² Cf. J. S. Mill: "The idea of property does not necessarily imply that there should be no rent. It merely implies that the rent should be a fixed charge. What is wanted is security of possession on fixed terms." *Principles of Political Economy*.

³ In England, a system of peasant-proprietorship was encouraged some years ago under the provisions of the Small Holdings Act.

So much about the rent of land used for purposes of cultivation and building. The rents of mining lands stand on an entirely different footing.¹

Rent of mining lands.

In practically all the States, formerly known as Native States, the mineral rights used to belong to the respective rulers, and concessions were granted for mining and prospecting under rules that involved a certain amount of supervision by the Government of India. Now that feudal rule has been abolished all mineral rights have been transferred to the Indian Union. In parts of what was formerly known as British India the mineral rights have been vested in the Union. In the rest of the country the Government of India retain rights over the minerals and grant concessions for their exploitation in accordance with the terms of rules framed by them.

Prospective licences are granted, under certain conditions, over restricted areas for short periods.

Prospecting licences.

State Governments have the power to grant *mining leases* for fairly long periods. But renewals of leases require the sanction of the Government of India. Every such lease contains such conditions and stipulations as the Government may think necessary in each case.

Mining leases.

Under the rules, the *prospecting rent* charged is moderate. Every lessee has to pay a surface rent, the rate being assessable under the revenue or rent Law of the State; or, if no such rent is so assessable, the rate which may be fixed by agreement, subject to a maximum. In addition to this, he has to pay a *royalty* at certain specified rates. The lessee has also to pay every year, after the first year, a fixed yearly *dead rent*, but no lessee has to pay both royalty and dead rent in respect of the same lease, but only such one of them as may be of the greater amount.

The question of the ownership of land is one of the many disputed questions of Indian Economics. In many countries, nationalisation of the land is the favourite ideal not only of socialists but also of many scientific economists. The influence of this ideal has made itself felt in India, where there is a tendency among Government officers to regard the Government as the universal landlord,—the ultimate proprietor of all lands,

Ownership of land.

¹ Sir T. Holland, *Sketch of the Mineral Resources of India*.



—and to regard the revenue taken from the people by the state as a rent. Some would go further and draw the legitimate conclusion from such a theory that the Government would be justified in demanding as its revenue the whole of the economic rent. Attempts have often been made to prove historically the correctness of this view.¹ Without entering upon the discussion of the technicalities of this question, we may say that, for economic purposes, each of three classes of persons may be regarded as having a limited right of proprietorship,—the tenant, the zemindar and the Government. The Taxation Enquiry Committee of 1924-25 were unanimously of opinion that “under both Hindu and Mahomedan rule, the state never claimed the absolute or exclusive ownership of the land and definitely recognised the existence of private property in it.” The Committee also were of the view that, “in the case of lands under permanent settlement, the Government have now no proprietary right.” With regard to *ryotwari* and other temporarily settled areas, the Committee were agreed in the view that in the generality of cases the zemindars and ryots were respectively the possessors of the proprietary rights, subject to the payment of land revenue. Besides, the Government itself is the direct owner of large plots of land, such as waste land, land which has been forfeited or has lapsed to or has been purchased by the Government, and all public land. With regard to these, the state stands on the same footing as a private landlord, the only difference being that these lands have not to pay any additional land-revenue. Rents of such lands are governed by pretty much the same principles as those of private lands.

2. WAGES

In the old village communities, wages as such did not exist, but all labourers were remunerated by portions of the produce. Custom still influences wages to some extent; the amount of its influence, however, varies according to the nature of the industry and the enlightenment of the labouring population. Broadly speaking, it may be said that wages are comparatively inelastic. They are not quite as responsive to changes of

¹ See Part II of the book; also P. N. Banerjea, *A History of Indian Taxation*, chap. vii.

Taxation
Enquiry
Commit-
tee's
views.

Wages in
ancient
village
com-
munities,
in modern
times.

circumstances as in Europe and America. Wages do, no doubt, fluctuate on either side of the fixed rates, but such fluctuations are always confined within narrow limits.

Competition is, however, becoming daily more and more important in the regulation of wages. In those parts of the country in which agriculture is the chief occupation of the people, there is very little demand for hired labour, and consequently a low and non-progressive scale of wages is found. This is specially the case where the population is very dense.¹ But a great density of population does not always cause a low rate of wages. Where, side by side with high density, there is a great demand for labour, as for instance in the cities, the scale of wages is high. So also, wherever a demand for labour is created by large undertakings, such as the establishment of mills or the construction of railways, wages rise. On the other hand, in the sparsest parts of the country wages are exceedingly low, because there is no demand for labour. In general, however, it may be said that, with the development of means of transportation, a broad labour market is gradually evolving itself. Labour is not so immobile now as it once was. Industrial labour is often recruited from distant parts of the country. The tea gardens of Assam and the jute industry of Bengal depend upon neighbouring provinces for their labour supply.

Influence
of com-
petition.

Wage-earners in different employments are classified as skilled and unskilled labourers. Formerly, in the manufacturing industries, labourers usually earned wages mainly as unskilled workmen, skilled labour being largely supplied by foreigners. But this system is gradually coming to an end. Unskilled labourers obtain only a comparatively small proportion of the total produce. But the discrimination is being removed gradually as skilled workers are recruited from the ranks of ordinary labour.

Skilled
and
unskilled
labour.

The wages statistics are incomplete, and admittedly faulty. By far the most important class of labour is agricultural, but the record obtained entirely fails to give a reliable indication

Average
wage.

¹ Some theorists regard the current doctrine of wages as being founded on a misconception. "In truth," said Mr. Henry George, "wages are produced by the labour for which they are paid, and should, other things being equal, increase with the number of labourers." According to Dr. Walker, wages represent the residual share in distribution.



of the remuneration of labourers. Wages differ not only in different employments but also in the same employment according to differences of locality and circumstances. The regularity of employment also varies greatly, and employment is practically nowhere continuous throughout the year. An average wage, therefore, for India generally has little meaning. The average wage of the child-labourer or woman-labourer is less than that of an able-bodied labourer.

Kinds of wages.

Various kinds of wages are prevalent in India. In the factories, and in all employments in which large numbers of people are engaged, wages are paid according to time. In the handicrafts and the domestic industries, the usual system is of task- or piece-wages. In some cases, wages are regulated by special contract; in some others, a certain minimum is agreed upon, and, if the work is done better, a higher rate is given. Lastly, when all the members of a family are engaged for any work, they are paid collectively.¹

System of payment.

The system of payment was formerly in kind; but now money payment has become the rule. In the remote villages the agricultural labourers, and sometimes the artisans and domestic servants also, are still remunerated, wholly or partly, by a percentage of the crop-yield. There is a tendency, however, everywhere for money wages to be substituted for wages in kind.

Rise in wages, real and nominal.

After the last quarter of the nineteenth century, in response to rise in prices, money wages substantially advanced. Wages, however, did not always keep pace with the rise in prices. During a period of forty years preceding the First World War the wages census showed that in Bengal and the Punjab the wages of agricultural labourers rose by 29 per cent. and 49 per cent., and those of artisans by 48 per cent. and 50 per cent. respectively. But the rise in the prices of food-grains was much higher proportionally. In 1914 the index-numbers of the prices of rice and wheat showed increases of 154 per cent. and 100 per cent. as contrasted with 1873.

After the First World War there was a marked advance in the wages of all kinds of labourers in India. Comparable and

¹ These different kinds are technically distinguished as time-wages, piece-wages, task-wages, contract wages, progressive wages, and collective wages respectively.

comprehensive statistics with regard to wages had not been collected by any reliable agency, except by the Bombay Labour Office. In the Presidency of Bombay, the daily average wages of field labourers rose from 4 as. 9 pies in 1913 to 9 annas in 1922, and in the case of unskilled urban labour the rate increased from 6 as. 3 pies to 9 annas in the same year. In the same Presidency the rate of wages of skilled labour rose from 13 as. 9 pies in 1913 to R. 1-10 as. 9 pies in 1922.¹ This rise in wages was the result of high prices which caused great hardships to all classes of labour, and the effects of which on industrial labour were so acute that in many places frequent strikes and lock-outs disorganised industries. The employers were in many cases obliged to concede the demands of labour, with the result that the wages were nearly doubled.² Subsequently, however, there was a tendency in the direction of a reduction in the cost of living, and a rise in real wages consequently resulted.

The level of prices was 102 in 1936 as compared with 100 in 1914 and 173 in 1921, and this shows that the cost of living had fallen, but there was no substantial reduction in wages. There is evidence to show that in certain industries and in certain parts of the country a substantial margin existed between the effective wages and the cost of living.

With the outbreak of the Second World War money wages registered sharp increases. They increased from an average annual earnings of Rs. 287·5 per head in 1939-40 to Rs. 728·4 per head in 1947-48. But this rise in the money earnings of labour could not keep pace with the movement of prices which rose to unprecedented heights during the war. The result was that the average real earnings fell from 287·5 in 1939-40 to 212·6 in 1943-44. Since 1943-44 real earnings have recovered somewhat, but they are still below the 1939-40 figure. However, though the real earnings per head have diminished, the total

¹ The Royal Commission on Labour in India (1931) in an analysis of wages in engineering and metal industries observes: "Taking five typical occupations—masons, carpenters, blacksmiths, fitters, and turners—the earnings are highest in Bombay City and Ahmedabad. . . . [wages] are lowest in Madras, Bengal, Bihar and Orissa, and the United Provinces. Midway between the two extremes come the Central Provinces, Burma, the Punjab, and Delhi in the order named."

² *Report on an Enquiry into the Wages and Hours of Labour in the Cotton Mill Industry*, p. 11.

real wages bill has never fallen below the 1939 figure. The broad fact is that since 1939 labour as a whole has improved in the organised industries its real as well as its money earnings, inspite of the fact that in these industries real earnings have dropped on an average by 13 per cent. This improvement has been secured by greater employment as well as by labour acquiring a greater share of the net value added by manufacture. But employment commenced to decline after 1945-46 and the share of labour, after reaching a maximum of 38 per cent. in 1946-47, is again tending to decline.¹

Con-
nec-
tion
between
prices and
wages.

The question which suggests itself here is—Is there any connection between prices and wages? There is certainly some sort of connection, but it does not always manifest itself in the same result. The connection is, in fact, rather peculiar. The most direct and perceptible connection is found in a reduction in wages when food is inordinately dear. The reason is this. The failure of the crops destroys a large portion of the funds available for paying wages. At the same time, the number of people seeking employment is greatly enhanced, and labourers are found ready to work in return merely for the barest subsistence. Thus a decrease in the demand for labour and an increase in its supply cause the wages to fall. When, however, a rise in the price of produce is due to a larger demand, and extra profits are thus obtained, the expansion of business increases the demand for labour, and wages rise.

3. INTEREST

Capital
mostly
raised in
Europe,
and
borrowed
from
banks.

The capital of most of the large-scale industries used formerly to be raised in Europe, and the interest on such capital, together with the profits, had to be paid abroad. But in recent years attempts have been made to raise capital from indigenous sources, supplemented, where necessary, by foreign capital. The subscribed capital of a firm is never sufficient for the carrying on of the business, and every firm has, therefore, to borrow money on occasions. This they get from the Imperial and other banks.

¹ Eastern Economist, Annual, 1947.

The rate of interest, although it is theoretically the same for all at any given time and place, depends in practice upon the security which a firm can offer and the period of time for which money is borrowed. The rates also differ in different parts of the country. The rates of interest in the interior of the country are considerably higher than the Reserve Bank rate.¹ Even within the limits of the Presidency towns the rates are not uniform, those charged by the smaller indigenous money-lending concerns being higher than the rates of the Exchange Banks. This rate varies from day to day according to the demand for money; but it is generally high in winter, when the agricultural products are ready for sale and export, and low in summer. As a rule, the bank rate is the lowest in July and August. In September and October it begins to rise slowly, and the upward movement is continued till in February and March the rate reaches the maximum. In April it shows a downward tendency, and continues to fall till it again reaches the minimum. The average rate of interest is usually a little higher than in England and other countries of Europe; but it is not so much the average effective rate for the whole year as the maximum rate in each year that is high.² On their Deposit side the Banks keep the moneys, on which they pay interest, the rates being of course lower than those at which they lend. The Government and other public bodies also occasionally borrow money. The rate of interest of recent loans floated by the Central Government and the State Governments has been 3 per cent. or near about this figure.

Agricultural capital is supplied mostly by the village money-lender.³ The agriculturist is almost always poor, and he usually cultivates his land with capital borrowed from the money-lender, on which he has to pay high—sometimes exorbitant—rates of interest. The practice of borrowing money is almost universal. It is frequently a part of the bargain that the pro-

¹ A further discussion will be found in Part II.

² J. M. Keynes, *Indian Currency and Finance*.

³ "The term includes professional money-lenders like *banias* or other classes who set up regular shops for doing this business, landlords, prosperous agriculturists, and traders; there are also pawnbrokers, the roving Pathans and others who traffic in money-lending." (*Statutory Report of the Reserve Bank of India, 1937*).



duce should be delivered to the money-lender at a certain price, which is always below the market rate. Sometimes the cultivator becomes heavily indebted, and the debt often runs through the life of the borrower and is inherited by his heirs.

The money-lender and the creditor. Usual arrangements.

A high officer of the Government once wrote: "A great number of the agricultural community appear to have a kind of running account with the mahajan; he advances them seed, giving one *seer* less than the market price. In other instances the advance is made at seed-time on the *sawai* principle, which means a return at harvest of one-fourth more than the quantity borrowed at seed-time. He lends money, moreover, for the inevitable marriage and for the equally inevitable lawsuit. When the tenant falls on evil days he would advance him rent to save him from ejection. He is, in fact, at all times, the resource to which the needy agriculturist goes for relief; and the consequence is that a large proportion of the cultivating community is seldom free from the mahajan's influence. When the crops are reaped the greater portion finds its way to his granary; the tenant retains a share for his immediate use, which is seldom sufficient for the consumption of his household until the following seed-time. Long before the next harvest approaches he has, as a rule, to have recourse to the mahajan. The system is not without its advantages in hard times; it is to the interest of the creditor as well as the debtor that the latter should live; there is a community of interest which secures him from starvation."

Community of interest.

Sir F. Nicholson's view.

The money-lender does, no doubt, exploit the misery of the poor cultivator, but he renders him good service, in so far as he enables him to live. Sir Frederick Nicholson wrote many years ago: "On this subject there are two opinions, one of which regards him as on the whole rather beneficent and friendly, as a sort of partner with the ryot, supplying the needs of the latter, maintaining him in times of misfortune. Others, again, regard him as a beast of prey seeking everywhere whom he may devour. The truth, as usual, probably lies near the middle. As society and credit are at present constituted, he fills an absolute gap, and is a rural necessity. On the other hand, he is most undoubtedly an expensive and dangerous necessity. He has been found in India from time immemorial."

The money-lender a dangerous necessity.

Credit is almost an inevitable condition of small farming. The farmer needs credit for the purchase of land ; for permanent improvements, such as the digging of wells ; for equipment, including implements and cattle ; and as working capital for buying manures, seeds, and fodder, and for paying the labourers.

Need of credit,

Sixty years ago, M. G. Ranade advocated the establishment of credit institutions all over India, so that agriculturists might get loans at low rates of interest. Facile credit is often very beneficial, but it has a drawback also. It is like a double-edged weapon, for there is the danger of its leading ignorant and thriftless cultivators to further indebtedness. Easy credit may sometimes mean reckless borrowing, and often for purposes other than those which help to increase the volume of production.

its danger.

Various measures have been adopted or proposed, from time to time, to check the indebtedness of the cultivator and thus to improve his condition. Enactments have been made with the object of restricting the transfer by sale or mortgage of agricultural land to non-agriculturists, the best known of these enactments being the Punjab Land Alienation Act. The Land Improvement Loans Act of 1883 and the Agriculturists Loans Act of 1884 were also passed to facilitate the supply of loans respectively for permanent improvements and short-term needs of agriculture, *e.g.*, purchase of seeds and cattle. But as the Royal Commission on Agriculture in India observed: "Legislative measures designed to deal with the problem of indebtedness have proved a comparative failure." The real solution of the problem would lie in a system which should provide the peasant with facilities for borrowing at a low rate of interest, and, at the same time, devise safeguards against imprudent and reckless borrowing. The credit associations started in Germany and other countries of Europe under the influence of Raiffeisen and Schulze-Delitzsch, on which the Indian Co-operative Credit Societies are modelled, fulfil both these conditions. The principles of action of these associations are those of self-help, co-operation, solidarity, prudence, thrift, and public spirit. The Agriculture Commission also unhesitatingly record their belief that "the greatest hope for the salvation of the rural masses from their

Measures for checking peasant's indebtedness.

Legislative measures.

Co-operative Credit Societies.

crushing burden of debt rests in the growth and spread of a healthy and well organised co-operative movement based upon the careful education and systematic training of the villagers themselves."

Check for
usury.

Positive measures to check usury by legislation have also been found necessary. The subject engaged the attention of the Government of India some time ago, who invited the opinion of the Provincial Governments and public bodies on the three suggested remedies, namely, (a) the fixing of a legal maximum rate of interest recoverable; (b) the determination of a legal maximum amount of interest recoverable, commonly known as *damdupat*; and (c) the bestowal of authority on the courts to go behind a contract, reopen a transaction, and reduce the rate of interest to what might be thought equitable. The first remedy seemed to most people to be the most suitable, but the opinion of the Government inclined towards the third.¹ They passed the Usurious Loans Act in 1918. This Act, as amended in 1926, provided that, in proceedings for the recovery of a loan, the court, if satisfied that the interest claimed was excessive and that the transaction was substantially unfair, might reopen the

¹ In regard to the comparative merits and defects of the three suggested remedies, the Government of India said in their circular letter: "The first of these solutions has the authority of various foreign precedents and of certain special local laws in this country, but the Government of India are willing to accept the adverse opinion of the Select Committee of the Houses of Parliament on money-lending which reported in 1898 The rule of *damdupat* has the advantage of being already in force in parts of the country—between Hindus in the town of Calcutta, in Berar and Bombay, and in certain Native States and it has the authority of the early law-givers. . . . At best, however, the rule is a rough and ready remedy. . . . In the case of *Ram Conoy Audicary vs. Johur Lal Dutt*, Mr. Justice Wilson speaks of *Damdupat* as a rule of limitation which only affects the accumulation of interest. . . . This rule also indirectly controls the rate of interest. The third remedy is that embodied in the English Moneylenders' Act of 1900 (for extortionate or unconscionable rates). . . . The Government are disposed to think that legislation on the lines of the English Act offers the best chances of success. The stock arguments against it are: (i) it would interfere with private contract; (ii) it would increase litigation, (iii) it would leave too much to the judge; (iv) it would harass and confuse the ordinary operations of trade; (v) it would tend to raise the interest paid by those who do not resort to the courts; (vi) it would be ineffective. . . . Finally, the Governor-General in Council would only remark that while he fully recognises the benefits which have accrued from the extension of co-operative credit, and the potentialities for good inherent therein, he does not consider that the progress made in this direction affords in itself an adequate remedy of the state of affairs which it is desired to alter."

contract and grant an equitable decree. The action under the law was not obligatory, but discretionary. But this provision was evaded, as it was not applicable to a loan transaction under a mortgage deed. The money-lenders insisted on mortgages so that the court might not interfere with the rate of interest. Measures designed to give relief to agricultural debtors have since been enacted in several provinces and are in contemplation in some others.¹ It is to be observed, however, that mere legislation will not solve the problem of agricultural indebtedness. Steps must be taken to educate the cultivator and to deprive the money-lenders of their monopolistic position by establishing land-mortgage banks and co-operative credit societies.

In Bengal, a number of public-spirited gentlemen established Co-operative Grain Banks (*Dharmagolas*) in several villages, many years ago. The cultivators deposited portions of their produce in these banks, which in times of need they were allowed to withdraw. Needy members were also given loans of grains from these deposits.

Co-operative
Grain
Banks.

Sir Daniel Hamilton suggested that the cultivators or the zemindars might provide the grain capital necessary to set the *dharmagola* a-going. The grain would be lent out at a grain rate of interest, the profit with the original grain being dumped into the *gola* for the benefit of the village. "The Dharmagola," said Sir Daniel, "might in time be developed into a village grain store in which the villager could deposit his crop and draw advances thereon at a reasonable rate of interest, instead of, as he now does, throwing his entire crop in a lump on the market or into the hands of the friendly Bunia, and getting the low price which must result from the whole of the crop being dumped on the market at one time." Most of the Grain Banks have now ceased to exist.

4. PROFITS²

The profits of manufacture are in every country higher than those of agriculture. In other words, as a money-making busi-

Profits of
manufac-
ture com-

¹ For a further discussion see Part II.

² Some important points relating to this subject will be treated in Part II.



pared with
those of
agriculture.

ness, agriculture is not so profitable as manufactures. Again, as we have already noticed, agriculture has to depend on several uncertain factors, such as drought or excessive rain, and the profits are consequently more uncertain than in manufactures. Manufactures involve various stages in production, and the profits are thus obtained by a larger number of persons.

Statistics.

Full details regarding the profits of the different industries of India are not available; but the reports published by the larger business firms give us some idea of the general rates of profits. These may be said to range from 8 to 15 per cent. Sometimes, the profits of certain industries go up as high as 30 or 40 per cent., and in exceptional times like wars they rise even higher.¹ Profits have generally been high in certain industries, *e.g.*, mining, jute, etc. Statistics of profits in the small industries are very difficult to gather, but it will not be incorrect to say in a general way that they are comparatively low.

Profits of
the² mid-
dleman.

In considering this topic we should take into account the profits of a class of persons who cannot properly be called organisers of industry, but who stand between the producer and the trader. These are middlemen who often make substantial profits. In the villages they are generally the money-lenders. They purchase wholesale the surplus produce of corn from the cultivators and send it to other parts of the country.

The produce of agriculture or manufactures is distributed among those who own or control the different factors of production. It is not necessary, however, that the shares should go to different persons. Sometimes, all the factors are controlled by the same person, and in such cases all the shares would go to him. India is a country largely of small industries which are carried on by workers on their own account. They supply the labour as well as the small capital required, and they are themselves the organisers. In a considerable number of cases, therefore, the whole of the produce goes to the same persons and the question of distribution does not arise at all. In the institution of peasant proprietorship also there is hardly any distribution among different parties. Therefore, it is often held that the economic problems of India are mainly those

¹ Out of 51 jute mills 32 paid dividends over 100 per cent. in one or more years following the First World War.



of production rather than of distribution. But it can hardly be denied that, with the growth of large-scale industries, the problems of distribution are gradually assuming great importance.¹

We can form some idea of industrial profits in recent years from the Economic Adviser's Index. Taking 1928 as the base year, the statistics of the movement of profits from 1939 to 1946 are given in the foot-note.² These figures would appear to show a steady advance of profits from the 1939 level. But the movement has not been uniform in the case of all industries or at all times. Profits have generally been high in certain industries, e.g., cotton textiles, paper, iron and steel, coal, etc. Statistics of profits in small industries are very difficult to gather, but it will not be incorrect to say in a general way that they are comparatively low. It should be remembered in this connection that these profits of the large industrial concerns during World War II were merely nominal, in view of the fact that very large shares out of them were taken by the Government in the shape of income-tax, super-tax, excess profits-tax and other taxes.

¹ The effects of the misdirection and waste of capital and labour due to the inequitable distribution of wealth in the West were thus generalised some years ago by Sir L. Chiozza Money: "The unduly large share of the national dividend possessed by the rich produces in them grave faults of character and purpose which make them indifferent administrators of the capital without which labour is powerless. The unduly small share of the national dividend possessed by the poor is the source of a stream of moral and physical evils which, mingling with the waters of death which descend from the high levels of luxury, produce effects whose causation is only obscure as long as we neglect the study of the Error of Distribution." (*Riches and Poverty*, p. 152).

²
INDUSTRIAL PROFITS
(Base year 1928=100)

Years	All industries	Jute	Cotton	Tea	Sugar	Iron & Steel	Coal	Paper
1939	72.4	13.6	154.5	96.2	179.4	289.3	139.1	151.8
1940	99.9	48.8	220.1	95.4	180.0	300.7	140.2	358.7
1941	135.4	46.8	489.1	141.3	247.3	387.3	114.9	432.2
1942	169.1	47.7	758.6	219.5	227.5	402.2	112.9	488.4
1943	170.9	37.5	988.6	137.0	283.1	323.8	134.1	535.8
1944	162.8	41.8	760.5	106.0	232.4	341.4	316.8	451.1
1945	163.2	44.4	681.1	144.5	193.1	348.3	360.6	424.5
1946	159.4	58.1	680.5	190.4	175.0	324.7	278.8	341.7

CHAPTER IX

EXCHANGE

1. A BRIEF HISTORY OF INDIAN COMMERCE

Trade in
ancient
times:

FROM the very earliest times, trade between India and the neighbouring countries was carried on by land as well as by sea. India was once "the seat of commerce."

by sea,

Even in very early times India had commercial relations with the Accadian-Semitic Empire of Persia, and it is well known that Indian produce was exported to the Kingdom of Solomon in the tenth century B.C. The range of commerce was gradually widened, and as early as the sixth or seventh century B.C., India had commercial intercourse with Egypt, Phoenicia, Arabia, Syria, Persia, China, Greece, and Italy. The Hindus built ships and navigated the ocean before the time of Alexander's invasion. Later, they held in their hands all the threads of international commerce in the East, whether overland or by sea.¹ The unknown author of that remarkable book, the *Periplus of the Erythræan Sea*, describes this commerce in detail,² and from him we learn that Indian vessels frequented the Arabian Sea, the Red Sea, the Persian Gulf, and the Indian Ocean, and his testimony is corroborated by that of other ancient historians and geographers, such as Pliny, Arrian, Strabo, and Ptolemy. The chief Indian seaports were: Barygaza (modern Broach), Saurashtra (Surat), Masalipatan, Barbarikon, Mouziris, and Nelkunda. There were other commercial towns, some of which attained great eminence. The value of this maritime commerce must have been very considerable.³ The dimensions of the export trade with Rome were such that there was a steady drain of

¹ There are several references to sea-voyages in the *Rig-Veda*, while the *Baudhayana Dharma-Sutra* mentions maritime navigation and taxes levied on maritime trade.

² Vide *Periplus of the Erythræan Sea*, and works by Greek writers translated by J. W. McCrindle. The term Erythræan Sea was applied to the Indian Ocean with its bays and gulfs.

³ Strabo wrote: "I found that about 120 ships sail from Myos Hormos to India."

specie and coins from that Imperial city. The chief articles of export were rich apparel made of silk and cotton, pearls, diamonds and other precious stones, ivory, spices, drugs and aromatics; and those of import were gold, silver, brass, copper, and tin. India's trade activity towards the east led to the foundation of colonies in Cambodia, Siam, Java, Sumatra, and the Malay Archipelago, which in course of time became prosperous countries. A brisk coastal trade was also maintained between the various seaport towns.

Trade by land with Central Asia, China, and other parts of by land. Asia, as well as with some countries of Europe, was carried on by caravans. There were several trade-routes which were availed of by merchants.¹ Besides, an active internal trade was carried on between the different parts of the country itself. The great rivers served as commercial routes, and royal roads connected the important cities.

Commercial activities were continued in full vigour till the ninth or tenth century, A.D. During the Pathan ascendancy, however, maritime commerce was gradually abandoned; but trade intercourse by land was continued. Later on, Akbar encouraged the building of boats and ships, and, for a time, both coastal and maritime trade received an impetus. The exports of the country were much larger in volume than its imports. In 1498, the voyage of Vasco da Gama round the Cape of Good Hope opened a route for commerce between India and Europe, so much easier, cheaper, and safer than any that had previously been used, as to change completely the destinies of the country and its relations to the general affairs of the world. Foreign maritime commerce was once again revived, this time, however, by Europeans. In the seventeenth and eighteenth centuries, the Dutch, the Portuguese, the French, and the English companies competed with one another for the largest share in the commerce with India. Ultimately, the English East India Company was able practically to oust the other companies from Indian waters. The invention of steamships led to a further increase

In medi-æval times.

In modern times.

¹ Trade routes are classified by Kautilya under four heads, namely, those going north, south, east, and west, respectively. The northern and southern routes were regarded as very important. The Indian caravans on the western routes were met at border stations by caravans bound for Persia, Tyre, and Egypt.



of maritime commerce. And lastly, the opening of the Suez Canal brought India much nearer to Europe and gave a fresh impetus to the commercial development of the country.

The foreign trade of India has now vastly increased, but Indians have a comparatively small share in it. The bulk of the internal trade still remains in the hands of Indians.

2. THE INDIGENOUS SYSTEM OF INLAND TRADE

Indigenous
system of
internal
trade.
The
village
trader.

Fairs and
religious
festivals.

Every village has its resident traders. In many instances the chief trader combines the functions of the money-lender and grain-merchant with his own proper vocation. Buying and selling are done in the markets, which meet daily in the more important villages and on fixed days in the week in other places. In addition to the shopkeepers, there are hawkers or itinerant sellers who supply the people with articles of merchandise in their homes. The religious festivals and fairs, some of which are attended by large numbers of pilgrims and visitors, also serve as important marts for the exchange of commodities.¹

Two kinds
of internal
trade.

A portion of the village produce is sold in the village markets for local consumption, and the surplus is handed over to the agents in the towns and thence dispatched to trade centres in other parts of the country, or exported out of it. Imported merchandise is distributed by the same machinery working in the opposite direction. Internal trade may be divided into two kinds: (a) traffic with the ports, and (b) trade between different parts of the country. The former is largely concerned with the collection of agricultural and industrial products for export, and with the distribution of imported merchandise, and the latter with supplying the surplus produce of one part to other parts of the country. Trade passes through the hands of a considerable number of middlemen.

Growth
and decay
of towns.
Trading
castes.

Towns spring up where trade activity increases, and historical cities often lose their importance as soon as they cease to be trade centres. Employment in trade often gives rise to trading castes or classes. These have now lost much of the importance

¹ Vast concourses of people gather at the *Kumbha Melas* which are held at Allahabad, Hardwar, and other places. The car-festival at Puri and the fairs at Harihar Chattra are attended by people from the most distant parts of the country. These fairs serve not only the purpose of marts but also of industrial exhibitions.

which they once possessed, but they still maintain a considerable degree of organisation, and retain a good part of the trade of the country in their hands. The Marwaris of Rajputana are found in almost every part of the country. In Madras the Chettis form the most important trading community. In the Bombay Presidency the largest share of trade is in the hands of the Parsis and the Bhatiyas, while the Baniyas still monopolise the bulk of the trade of Northern India. Among the Mahomedans the most notable commercial classes are the Borahs and Khojahs of Bombay and Gujarat.

3. TRANSPORT AND COMMUNICATIONS

For the growth of trade and commerce the development of means of rapid and cheap transportation is essential. Till the middle of the last century pack-animals, such as bullocks, horses, camels and mules, as well as carts drawn by these animals, were the only means of transport by land ; while country-made boats were the instruments of riverine transport. With the development of railway communication, the importance of pack-animals and carts has diminished, but they are still utilised for carrying goods to the towns, ports or railway stations. The old system.

From the very earliest times, the construction of roads and canals was considered among the chief duties of the rulers. Under the Hindu as well as the Mahomedan rule, roads and canals were constructed,¹ which connected the outlying districts with the capital. Major Briggs, speaking of these roads, remarks that for bold engineering skill and wonderful contempt of difficulties, they "deserve to rank with the works of the old Romans." Their number, however, was not as large as could be desired and their condition was not always satisfactory. The great rivers did, no doubt, furnish means of communication and some facilities of transport, but they were found insufficient for the purpose of keeping up intercourse between the different parts of the country throughout the year. Means of communication in early times.

In the early days of the East India Company, the Government did not recognise the execution of public works as a necessary

¹ The Jumna Canal, constructed by the Mahomedan Emperors, must be considered as a great achievement for those days.



Railways.

part of their policy.¹ In the later years of the Company, however, matters began to improve, and, after the Mutiny of 1857 and the assumption of the government of India by the Crown, the construction of public works went on with increasing speed. Railways now connect all the principal districts and cities, the great rivers have been bridged, the country has been covered with roads, and the rivers and canals afford increasing facilities of transport. After Partition the total route mileage of railways amounts to about 35,000 miles.

Roads.

The railways, instead of superseding the roads, have actually increased the traffic on them. Side by side with the construction of railways, progress has been made with the construction of roads. Trunk roads now run to and from all important centres, and innumerable feeder-roads connect the trunk roads with one another. The recent development of motor transport has given an impetus to the construction and improvement of roads. This has created a problem for the railways in many cases, as short-distance traffic is often being diverted from the railways to the roads.

Steamship communication.

Steamship communication has been developed in those parts where the rivers are navigable. The canals also offer some facilities of communication and transport. It is, however, in maritime transport that the greatest development has taken place.

Aviation.

Civil aviation is making rapid progress in India since the opening of the tri-weekly air transport service between England and India.

Communication of intelligence.

Lastly, the post office, the telegraph, the telephone, and the wireless afford great facilities for the communication of intelligence, so that the slightest alteration in trade conditions in any part of the world has its repercussions throughout the country. Direct and speedy radio-telephone service between India and the world is now envisaged.

Internal trade.

4. THE PRESENT POSITION OF COMMERCE AND TRADE

In a vast country like India, the internal trade cannot but be immense, and the volume is daily increasing. But it is not possible to measure this volume of trade with any degree of accuracy.

¹ *Imperial Gazetteer*, vol. iii.

The great bulk of the internal trade, representing about two-thirds of the total, flows directly to and from the chief ports; the balance is the trade within the different States. The traffic flowing from the port towns to the interior of the country consists principally of foreign merchandise imported by sea, and that flowing to the port towns from the country comprises chiefly raw materials and in a smaller degree industrial products. Among the provinces, West Bengal's position in the inland trade is important on account of jute, jute goods, rice and other food-grains, oil-seeds, coal, and tea produced in the province. Bihar (including Chota Nagpur) is important for its production of coal and other minerals. Tea is the staple product of Assam. Cotton, wheat, and seeds in the Bombay Presidency, cotton and ground-nuts in the Madras Presidency, and spring and winter crops (*e.g.*, wheat, gram, linseed, rapeseed, etc.) in the Uttar Pradesh and the East Punjab chiefly account for the large movement of these articles to the various seaports. The Uttar Pradesh, well served by railways, conducts a larger business in purely inland trade than any other State of India.

The inland trade of the country is much larger in volume and value than its sea-borne trade. But the foreign commerce of India is very important from many points of view. Foreign commerce.

The First World War produced a very stimulating effect on Indian foreign trade in some important lines of export, such as iron and steel, leather and jute goods, and cotton manufactures. But in other respects the growth of India's foreign trade received a serious set-back. India lost some of her most valuable customers because they became enemy countries or countries occupied by the enemy, such as Germany, Belgium, northern France, Servia, Poland, etc. The shortage of available tonnage and the imposition of blockade also served to reduce the volume of her trade with allied and neutral countries.

During 1929-33, along with the trade of other countries, the foreign trade of India passed through a phase of acute depression. Sea-borne trade. The different commodities entering into the lists of imports and exports were also differently affected, though their relative positions were not very much altered. Lastly, the relative positions of different countries as purchasers of Indian exports or as suppliers of imports to India were also affected both by general



economic factors and by the fiscal policies and other measures adopted by them to cope with the depression. In the case of India, the foreign trade began to decline by the middle of 1929, reaching the lowest point in 1933-34, in which year the total value of foreign trade was only Rs. 336 crores.

Balance of
Payments.

Inter-war
period.

Changes
during
World
War II.

Balance of
Payments.

Soft and
hard
currencies.

The main features of India's balance of payments in the inter-war period may be summed up as follows: In the first place she incurred heavy obligations on service account and these obligations were inelastic. In the second place, she was an exporter of primary products, and the fluctuations in the receipts on merchandise account were very wide. Thirdly, gold movements, and, to a certain extent, capital flows acted as the balancing factor. The first two obviously constituted weaknesses in her balance of payments.

During the war years of 1939-45 important changes took place in the structure of India's international transactions. These changes were: first, a diminution in India's payments on service account owing to the accumulation of sterling assets in her favour and the repatriation of most of her sterling debt; secondly, an improvement in her terms of trade due to the relatively greater rise of the prices of primary products and the significant emergence of India as an exporter of manufactured articles; and thirdly, a restriction in the scope of gold movements due to many external and internal factors.

At the close of World War II, India's balance of payments became stronger. But nevertheless there were some elements of weakness. Food, which did not figure much in India's pre-war imports—her net imports in this respect being on an average only about 0.5 million tons per annum—now came to be imported on a scale five or six times greater than before. The demand for certain kinds of machinery urgently required for heavy arrears in repairs and replacements could not also be postponed any longer.

The distinction between soft and hard currency areas, which arose after the World War, created another problem. It now became essential to achieve not merely an overall balance but also a balance in respect of hard currency areas.¹ The changes in the structure of India's foreign trade during 1946-49 have been

¹ Reserve Bank of India Bulletin, July 1949.

far-reaching. The main cause was the Partition and the economic consequences thereof were noticeable in the most spectacular manner in the altered pattern of India's foreign trade. As a result of Partition, the sources of many staple commodities and raw materials which had figured as important categories of pre-war exports were included in Pakistan, now a foreign country. From an exporter of raw jute and raw cotton, the Indian Union has been turned into a heavy importer of both these articles. A good part of the total exports of hides and skins in pre-partitioned India now belongs to Pakistan. It is jute manufactures and tea which have not lost ground among Indian Union's export resources. Jute manufactures have also retained their prominent position in the export trade. On the import side, as already noted, the most directly visible change is the large imports of food-stuffs. The deterioration in the ratio of exports to imports is mainly due to the large imports of food-stuffs. They are also one of the principal causes of India's deficit with hard currency areas.

Post-war period.

Changes in structure.

There are many obstacles to the development of India's exports. One is the price factor. On account of high prices, Indian commodities are unable to stand the competition of foreign goods in the world markets. Some commodities which could earn hard currencies are also being diverted to soft currency areas because of their prices. Another factor is the growth of internal demand. The development of synthetic products and substitutes constitutes a third important obstacle to the expansion of our exports. But in spite of these hindrances the export trade greatly improved in 1949-50, while vigorous restriction kept imports down.

Pre-war and Post-war patterns of India's exports.

The bulk of the carrying trade with India is done by British ships. During the year 1936-37 the tonnage under the British flag was nearly 65 per cent., Japanese vessels carried about 9 per cent., while German and Italian vessels carried about 7 per cent. each of the total trade. The other countries whose vessels were engaged in the carrying business were the United States of America, Norway, Holland, and France. There was a slight improvement in the amount of carrying trade done in Indian craft, which was about 1.1 per cent. of the total carrying trade in 1936-37. In 1948-49, as in pre-war days, the bulk of the



carrying business with India was done by British ships. During the year, 1948-49, the tonnage under the British flag was nearly 63 per cent. Indian vessels carried about 1.5 per cent. while other foreign vessels besides the British carried the rest. Thus there was a slight improvement in the amount of carrying trade done in Indian crafts.

5. PRICES

Changes in
prices.

From about the middle of the nineteenth century a tendency towards a rise of prices became visible. This tendency became more progressive during the first two decades of the twentieth century. The decennial average for the period 1901-10 was higher than the average for the previous decennial period, and the average for the period 1911-20 higher than that for the period 1901-10.

Prices soared very high between 1917 and 1920, the rise being especially marked in the prices of food-grains. Thereafter, there was comparative stability of prices up to 1929, in which year prices fell suddenly. During the next four years (the period of the Great Depression) prices went on falling, the lowest point being reached in the first part of 1933. There was a slow, but none the less noticeable, revival of prices in the subsequent years, but the general level was still much lower than the average for the period 1920-1929, and considerably lower even than that for the pre-war period. Thus the course of average prices after the First World War was highly chequered, and it was in marked contrast to the steady upward tendency which had characterised the pre-war movement.

Influence
of world
factors.

The general index-number for all articles, calculated on the same basis, was 203 for 1929 and 119 for 1934.¹ These fluctuations of prices, especially the war and post-war changes, were connected with similar price-movements in the rest of the world. As different countries of the world became more and more interdependent, the economic bonds among them became closer, with the result that prices tended to move in the same direction in all countries. This was especially the case with

¹ *Statistical Abstract, Thirteenth Issue.*

respect to the prices of those articles which entered into the foreign trade. In the case of India, this general tendency was accentuated by the exchange and fiscal policies of the Government. From 1893 onwards, the rate of exchange between India and Great Britain was kept fixed, with only occasional lapses. Since London was the world's financial centre, and since the British currency was the world's chief money-of-account, the maintenance of a fixed rate of exchange with that country by India helped in communicating movements of prices in other countries to India. Another factor which helped in the same direction was the maintenance of a policy of free trade by India up to 1924.

Exchange and fiscal policies of Britain.

The years 1925 to 1929 witnessed a remarkable expansion of industry and trade, and a steady upward movement of prices all over the world. In India also, production and prices rose in sympathy. The continuous rise in prices fostered a spirit of optimism, specially in the United States of America, where it overreached itself in an orgy of speculation. This led to the catastrophic financial collapse of the New York Stock Exchange in October, 1929. The whole structure of international finance was rudely shaken by this event. In the summer of 1931, a severe financial crisis occurred in Central Europe, owing chiefly to the accumulated burdens of inter-governmental debts. England, which had lent heavily to these countries, was forced off the Gold Standard in September, 1931, and India immediately followed in her wake. Other factors also had been in operation. Even before the New York crash of 1929, the prices of agricultural goods had begun to fall owing to an excessive expansion of production under the spur of high prices. This fall in prices of agricultural goods was accentuated by the European crisis leading to a diminution of the purchasing power of European countries, which were the chief markets for these goods. All these factors brought down the prices of India's staple articles of export to exceptionally low levels. The prices of agricultural commodities fell in India to an even greater extent than in other countries. Prices of other articles followed the prices of exports, and the general price level, therefore, sagged. This

Factors leading to the depression.

depression continued till 1935, but signs of a revival manifested themselves in 1936.¹ The recovery continued during the first half of 1937, but towards the end of that year a distinct check became discernible, which continued during the year 1938.

With the outbreak of the Second World War in 1939 prices in India, along with those of other countries, began to soar upwards. By 1943 the prices reached unprecedented heights and since then the upward movement of prices has practically remained unchecked.

The Economic Adviser's Index of wholesale prices registered an increase from 100 in August, 1939 to 220.1 in March, 1943. The cost of living index increased from 86 in 1941 to 102 in 1944. We should note that prices in India rose to immensely greater heights than the prices either in U.S.A. or Britain. The reason for this is to be found in the tardiness of the Government in adopting a vigorous system of price control and rationing, such as prevailed in U.S.A. and in Britain, and the enormous amount of notes issued by the Reserve Bank of India. From 1943, when a system of price control was adopted in India, to the end of 1945 prices in India remained relatively stable, though at a level much higher than the 1939 level. Of course, the price indices during this period took account only of controlled commodities leaving out of account the exorbitantly high black-market prices.

The end of the war in 1945 gave rise to speculation in certain quarters that the war-time rise in prices would be re-

Index
numbers.

¹ The following table gives the general index-numbers of prices in India and in some other important countries for the years 1931 to 1936, the prices of 1929 being taken as 100.

Year	India	United Kingdom	United States	Japan	France
1931	77	77	68	70	80
1932	75	68	65	73	68
1933	75	69	62	82	64
1934	77	79	63	81	60
1935	78	84	65	84	54
1936	83	85	65	90	66

Review of the Trade of India for 1936-37, p. 21.

placed by a recession in the price-level. But that expectation was falsified by subsequent events. Though war demands came to an end the price-level showed no signs of declining; rather it rose upwards, though at a varying pace, and occasionally marked by temporary small recessions in certain sectors of economy. The rate of increase in the general index-number during 1946 and 1947 was considerably high. But the most significant increase was in the general and group indices during the four months ended February, 1948, when the rise equalled and in some cases exceeded the total annual rise in the year 1947.

The post-war increase of prices can be attributed to the following causes: (1) deferred demand, (2) decline in production, both industrial and agricultural, due to communal disturbances, bottle-necks in transport, unsatisfactory despatches of coal, labour trouble, and talks about nationalisation, creating lack of confidence in the business community, (3) continued budget deficits of Central and Provincial Governments, both on revenue and capital accounts, and (4) premature policy of decontrol on the part of the Government on two occasions. The announcement of the Government policy of progressive decontrol of food grains from 1947 gave rise to a sudden spurt in prices and the general index registered a sharp increase from 290.5 in January, 1947 to 381.0 in June, 1948. The Government of India realised the gravity of the situation and invited expert opinion in the second half of 1948 for checking inflation. On the basis of the recommendations of the experts certain anti-inflationary measures were adopted by the Government. But there did not appear to be any appreciable decline in the level of prices. On the contrary, the general index of wholesale prices in 1949-50 registered an increase of over 9 points (from 376.2 in 1948-49 to 385.4 in 1949-50). In the beginning of the financial year 1950-51, the general index further increased to 391.5. The basic remedy for checking the inflationary movement in prices is an increase in production, and so long as an expanding volume of production is not forthcoming the rising tendency of the price level will continue in large sectors of Indian economy.

The following table gives the index-numbers of wholesale prices in India for the latest periods.¹

Commodity Groups:	1948-49	1949-50	July, '50
Food articles	382·9	391·3	422·8
Industrial raw materials ..	444·8	471·7	505·9
Semi-manufactures ..	327·3	331·6	339·6
Manufactured Articles ..	346·1	347·2	348·2
Miscellaneous	525·2	570·7	708·9
General	376·2	385·4	405·2

The retail prices, particularly in rural centres, are of course considerably higher. It is not possible to ascertain retail prices in all parts of the country, but the figures collected from some typical rural centres show that there were considerable increases in retail prices between the years 1944 and 1950.

INDEX-NUMBERS OF RETAIL PRICES IN RURAL CENTRES.
(1944—100)

		1948-49	1949-50	April '50
All Food Articles	{ Maibang ..	141	152	152
	{ Nana ..	238	262	254
	{ Krishna ..	154	175	193
Fuel and Lighting	{ Maibang ..	106	109	125
	{ Nana ..	127	138	148
	{ Krishna ..	155	165	155
Clothing	{ Maibang ..	144	118	118
	{ Nana ..	152	150	147
	{ Krishna ..	177	153	134
Miscellaneous	{ Maibang ..	106	103	100
	{ Nana ..	185	198	198
	{ Krishna ..	182	215	195

¹ Reserve Bank of India Bulletin, August, 1950.

CHAPTER X

EXCHANGE—(Continued)

CURRENCY

MONEY was in use in India in the very earliest times of which we have record. At the very dawn of history, we find the Indian people already well advanced in civilisation. They were at the time actually entering upon what is known as the manufacturing and commercial stage. Such a state of society implies exchange, and exchange implies the use of money.

Antiquity
of money
in India,

The great antiquity of Indian money is proved from various sources, the chief amongst which are (a) the most ancient accounts of the population and condition of society in India ; (b) the Vedic writings ; (c) the code of Manu ; (d) the Buddhistic works ; (e) numismatic and archaeological remains ; and (f) comparative philology.¹ Various kinds of coins made of gold, silver,² and copper were in use ; and many other substances, such as clay, lacquer, and shells (*cowries*) were also used for exchange. Rulers had the prerogative of coining gold or silver, though adequate measures were rarely taken to prevent coinage by private persons.

proved
from
various
sources.

During the Mahomedan rule, a reform of the currency was attempted, and several interesting monetary experiments were made. The rulers began to enforce the prohibition of coinage by private persons. Mahomed Tughlak initiated a new scheme of finance, in pursuance of which he at first debased the silver coins, and ultimately issued copper pieces, which were to circulate at the nominal value of silver coins. But this bold scheme, which was in reality a forerunner of the modern system of paper money, failed. The discovery of America and increased commercial relations with Europe led to an influx of silver into India in exchange for spices and gold ; and Akbar the Great attempted to introduce a uniform standard, but his efforts did not fully

During
Mahome-
don rule.

¹ Del Mar, *History of Money*, p. 58.

² Historians tell us that silver was in the earliest period more valuable than gold.



Under the
East India
Company.

succeed. In the seventeenth century, the East India Company also began to issue coins for use in their factories. During the remaining years of Moghul rule, coins continued to be struck at various places, and they were of different weights and denominations.

In the
nine-
teenth
century.

At the beginning of the nineteenth century, some parts of India (*e.g.*, Madras) maintained a gold standard and currency; elsewhere, as in Bengal, a silver standard obtained, with gold coins in concurrent circulation. Throughout India the coins, whether of gold or silver, differed in denominations as well as in intrinsic value, even within the same district. The resulting confusion afforded an opportunity to a class of indigenous bankers, who made profit by charging high fees or *batta* for exchanging one kind of money for another. The media of exchange failed, therefore, to function as measures of value. In 1806, the Directors of the East India Company gave their approbation to the demand for a uniform coinage, and the first step that was taken was to replace the old miscellaneous coinages by four denominations of rupees and fewer kinds of gold coins. In their Despatch to the Governments of Bengal and Madras, the Directors observed that, while fully satisfied with the silver rupee being the principal measure of value and the money-of-account, they by no means desired to drive gold out of circulation. Nevertheless, in 1818, the rupee was substituted for the gold pagoda in Madras; and, in 1835, the rupee, which weighed 180 grains, and contained 165 grains of pure silver, was made the standard coin for the whole of British India. It was further enacted that "no gold coin shall henceforward be a legal tender of payment in any of the territories of the Company." The coining of gold mohurs (15-rupee pieces) was authorised by the Act of 1835, and in 1841 a Proclamation authorised officers in charge of public treasuries "freely to receive these coins." A few years later, however, the effect of the Proclamation was found embarrassing to the Government of India, on account of the extensive discoveries of gold in Australia, which resulted in diminishing its value in relation to silver. Consequently, in 1852, the Proclamation of 1841 was withdrawn. In 1864, the Government of India proposed that sovereigns and half-sovereigns coined at any Royal Mint in England, Australia, and



India, be made legal tender at the rate of one sovereign for 10 rupees, and that Government currency notes should be exchanged either for rupees or for sovereigns at that rate. The Imperial Government, though unwilling to make the sovereign legal tender, accepted the second proposal.

India thus continued to be a silver standard country.¹ Silver was received in the Indian mints without limit when tendered for coinage. Consequently, the value of the rupee in gold depended on the gold price of the silver bullion. The discovery of new silver mines and the demonetisation of silver by many advanced countries caused a heavy fall in the value of silver. The maintenance of bimetallism by the countries of the Latin Union, which was formed in 1865 with France as the leading member, served for a time to keep up the rate of exchange between silver-standard and gold-standard countries, in the face of a continuing fall in the market value of silver. But these countries were compelled to give up bimetallism in 1873, and thereafter the exchange value of the rupee in terms of gold fell continuously. Thus the rate fell from 2s. in 1871 to 1s. 3d. in 1892. Although for internal purposes it did not matter much, yet in the trade relations of India with gold-standard countries it produced very bad results. The violent oscillations in the rate of exchange upset trade conditions and hindered the development of India by foreign capital.² Besides, the Government of India suffered great loss in making remittances to meet its obligations in England. ✓The number of rupees required for defraying the sterling expenditure in England increased with each fall in the exchange rate of the rupee. ✓The Government had also to pay compensation allowances to British officers to make good the loss which the latter suffered. ✓This rendered necessary a considerable increase of taxation; and the violent fluctuations in the value of the rupee made the preparation of the Budget an exceedingly difficult task. In view of this embarrassment, the Government tried for a number of years to

India a silver-standard country till 1893.

Fall in the value of rupee.

Consequences of the fall.

¹ *Report of the Indian Currency Committee, 1898, pp. 1 and 2.*

² In 1892, the Bengal Chamber of Commerce represented to the Government that "it was impossible for men of business to feel any confidence in the future value of the rupee, and they believe that such a state of things restricts the investment of capital in this country and seriously hampers legitimate enterprise".



The
Herschell
Com-
mittee.

promote a system of International Bi-metallism. But when their efforts became ineffectual they appointed, in 1892, a Committee, under the presidency of Lord Herschell, to consider the proposals submitted by the Government of India for the closing of the mints to the free coinage of silver, and for the adoption of a gold standard. In accordance with the recommendations of this Committee, the Coinage Act of 1893 provided for the closing of the Indian mints to the free coinage of both gold and silver, the Government retaining the power to coin rupees on its own account. Notifications were also issued arranging for (i) the receipt of gold at the Indian mints in exchange for rupees at the rate of 16d. per rupee, and for (ii) the receipt of sovereigns and half-sovereigns in payment of dues to the Government at the rate of Rs. 15 for a sovereign.¹ The net results of these measures were: (1) that the exchange value of the rupee ceased to coincide with the price of silver, and (2) that silver ceased to be the standard of value, though it continued to be used as the chief material of currency. Gold, however, did not yet become legal tender.

The
Fowler
Com-
mittee.

In 1898, another Committee was appointed, under the chairmanship of Sir Henry Fowler (afterwards Lord Wolverhampton). The Fowler Committee reported in 1899. Their chief recommendations² were: (1) that the British sovereign should be made a

¹ The Herschell Committee recommended that "the closing of the mints to the free coinage of silver should be accompanied by the announcement that, though closed to the public, they will be used by Government for the coinage of rupees in exchange for gold at a ratio to be fixed at, say, 1s. 4d. per rupee; and that at the Government treasuries gold will be received in satisfaction of public dues at the same ratio." (*Indian Currency Committee's Report*, 1893, para. 156).

² "We concur with the Government of India in their decision not to revert to the Silver Standard. . . . Over four-fifths of the foreign trade of India is with Gold Standard countries, and for this reason it is desirable that India should have the same measure of value as those countries. . . . A further and certainly not less important consideration for a country like India is that an established Gold Standard is the simplest and most effective means of attracting capital. . . . We are in favour of making the British sovereign a legal tender and a current coin in India. We also consider that, at the same time, the Indian mints should be thrown open to the unrestricted coinage of gold on terms and conditions such as govern the three Australian branches of the Royal Mint. The result would be that, under identical conditions, the sovereign would be coined and would circulate both at home and in India. . . . Under an effective Gold Standard rupees would be token coins, subsidiary to the sovereign. But existing conditions in India do not warrant the imposi-

legal tender and a current coin in India; (2) that the rupee should also continue to be legal tender to an unlimited extent; (3) that the sterling rate for the rupee should be fixed at 1s. 4d.;¹ (4) that the Indian mints should be thrown open to the unrestricted coinage of gold; (5) that the mints should not be reopened to the free coinage of silver; (6) that, though the Government should continue to give rupees for gold, fresh rupees should not be coined until the proportion of gold in the currency was found to exceed the requirements of the public; and (7) that any profit on the coinage of rupees should not be credited to the revenue, or held as a portion of the ordinary balance of the Government of India, but should be kept in gold as a special reserve, entirely apart from the Paper Currency Reserve and the ordinary Treasury balances.

The Government of India approved of these recommendations, and proceeded to give effect to them. In September 1899, the sovereign was declared legal tender, but the rupee also continued to be legal tender to an unlimited amount. In 1900, the then Finance Member of the Government of India announced in the Imperial Legislative Council that it had been decided to constitute a branch of the Royal Mint for the coinage of gold in India, but the scheme was dropped after nearing completion in 1902. The monetary standard which was thus established came to be known as the Gold-Exchange Standard, or, in other words, a Gold Standard without a gold currency.² The Gold-Exchange Standard may be said to exist under the following conditions: (1) gold does not circulate to an appreciable extent within the country; (2) the local

Government's approval of recommendations.

Adoption of the Gold-Exchange Standard.

tion of a limit on the amount for which they should constitute a legal tender. . . . In conclusion, we desire to record our opinion that the effective establishment of a Gold Standard is of paramount importance to the material interests of India. Not only will stability of exchange with the great commercial countries of the world tend to promote her existing trade, but also there is every reason to anticipate that with the growth of a confidence in a stable exchange, capital will be encouraged to flow freely into India for the further development of her great natural resources. For the speedy attainment of the object, it is eminently desirable that the Government of India should husband the resources at their command, exercise a resolute economy, and restrict the growth of the gold obligations. . . ."

¹ The Committee were not unanimous in regard to this rate.

² The Hilton Young Commission expressed the view that it should have been called a "Sterling-Exchange Standard."



currency is not necessarily redeemable in gold for internal use; (3) the Government or the Central Banks make arrangements for the provision of foreign remittances in gold at a fixed maximum rate in terms of the local currency; and (4) the reserves necessary to provide these remittances are kept, to a certain extent, abroad. This system, which was first advocated by Mr. A. M. Lindsay, was adopted by the Government, not as a consistent whole, but piecemeal, as the result of a series of experiments.

Immediate effect.

The immediate object of the closure of the mints was to raise the value of the rupee by restricting the supply. In 1893, the rupee stood at 1s. 2½d. The Government set itself to the task of raising its value. In this, however, it was disappointed. The restriction of supply caused apprehension in the minds of the people, and brought into circulation the hoards of rupees, and the quantity which would otherwise have been used for artistic and ornamental purposes remained to swell the total silver currency. Rupees which were outside British India also naturally sought the Indian markets. The first result of the closure of mints, therefore, was that the rupee fell in value.¹ The Government stood out for a while, but in the end was compelled to sell rupees for about 1s. 1½d. During the next few years the policy of abstention from coinage was resolutely persisted in. But the value of the rupee continued to fall, and in January, 1895, it reached the minimum of 12½d. After that date it rose by gradual steps till in 1898 it stood at 1s. 4d. The value of the rupee rose, not because there was a contraction of currency, but because the value of silver could no longer influence the value of the rupee owing to the suspension of free coinage. From 1898 to 1916 the value of the rupee did not fluctuate to any important extent, except for a brief period during the crisis of 1907-8, when the rupee fell considerably below specie point.²

Further fall in the value of rupee.

The rupee almost steady in value from 1898 to 1916.

Criticism.

This currency experiment was the subject of criticism of

¹ This immediate result had been foreseen by Professor J. S. Nicholson. (*Vide* his article entitled the "Indian Currency Experiment" in the *Contemporary Review*, 1893).

² In 1908, the exchange fell to 1s. 3¾d., but this marked fall was due to the combined effect of the Indian famine and the American monetary crisis.

various sorts. The admirers of the system claimed for it great and unqualified success.¹ Experience showed, they said, that the system was perfectly stable, as had been found at the time of the severe test of the crisis of 1907-8; great developments of trade and industry had proceeded under the system; it had settled the finances of the Government and had made possible the remission of a considerable amount of taxation; and, lastly, the wisdom of the measure was proved by the fact that many other countries had followed the example of India in this matter.² Its detractors pointed to the inelasticity of the system as a great defect. In busy seasons, an increased currency was required, which, in a dull season, led to an inflation of the currency from a want of automatic regulation, and thus raised prices. The Gold-Exchange Standard failed to secure stability of purchasing power. During the period 1893-1923, prices varied more in India than elsewhere. Further, they contended that during the crisis of 1907-8 the system was almost on the verge of a collapse,³ and that in the post-war crisis of 1919-20 it completely broke down. As for the remission of taxation, they argued that there had really been none, for the remitted taxation

¹ Mr. Keynes wrote in the *Economic Journal* (October, 1914): "The Gold-Exchange Standard, based on a reserve in London, has enabled the Indian currency system to meet the crisis better than that of almost any other country. No moratorium has been declared, and the exchange value of the rupee has been maintained throughout between the gold points. Of no other important country can this be said."

² The Gold-Exchange Standard was adopted by the Philippines, Mexico, and the Straits Settlements. The currency systems of Russia, Holland, Japan, and Austria-Hungary also were not very different from the Indian system. The Currency Commission (1914) pointed out that, "in those countries, as in India, gold actually in circulation is of secondary importance, and the internal medium of circulation, whether it be a silver coin or a paper note, depends for its value in exchange, not on its own intrinsic worth, but on the maintenance in reserve of gold or resources readily convertible into gold, and in the case of Russia and Japan, at any rate, large portions of the gold resources are held not at home, but in London, Paris, and other monetary centres, just as India's Gold-Standard Reserve is held in London." (*Report*, para. 51).

³ The following question by the Chairman of the Currency Commission (1913) and the answer given by Lord Inchcape are interesting in this connection:

Q. 10,185. You do not think there is a danger that in some severe crisis when there has been, say, not only famine in India, but a severe monetary disturbance in London, you would find it difficult to realise your securities at anything but a ruinous price?

A. Things then would be very bad indeed. You would all be "bust" up, if it came to that.



represented the additional amount that had been taken from the taxpayers by an artificial appreciation of the rupee.¹ Furthermore, it was asserted that India's national capital invested in rupees was a wasting asset, inasmuch as the rupee depreciated as bullion. Besides, they held that it was desirable for the Government to interfere as little as possible with the currency. ✓ Lastly, the Gold-Exchange Standard was a very complicated mechanism, and, in the words of Prof. Cannan, it was "neither fool-proof nor knave-proof."

Alternatives suggested:
Silver currency,

Bimetallism,

Gold Standard in entirety.

Now, admitting that the system was not perfect, what were the alternatives to it? Some people, whose number was exceedingly small, advocated a return to the old system, *viz.*, the silver standard; but to do so would have meant a recurrence of the state of affairs which had made the adoption of the Gold-Exchange Standard necessary. Bimetallism² was another alternative, but it could be successful only if it was accepted by at least a majority of the advanced nations, which was very unlikely to happen.

The third alternative was the adoption of the Gold Standard in its entirety. The chief arguments adduced in favour of this standard were thus summarised by the Finance and Currency Commission of 1913:

Arguments for.

(i) That gold was a more convenient and portable medium of circulation than the rupee.

(ii) That a gold currency was a necessary step towards what might be regarded as the ideal currency, *viz.*, paper backed by gold in reserve.

(iii) That some prestige attached to the possession of a gold currency, whereas a silver circulation was the mark of less progressive peoples.

(iv) That a large amount of gold in circulation was a strong, and, in the view of some people, the only adequate, support for exchange.

¹ The amount of taxation remitted between 1898 and 1910 was 5 crores of rupees, and this according to G. K. Gokhale, was the additional amount taken from the people by means of the appreciation of the rupee (G. K. Gokhale's Budget Speech, 1910).

² Prof. J. S. Nicholson, in his *Money and Monetary Problems*, tried to prove that bimetallism was both advantageous and practicable. On the other hand, an eminent authority like the late Sir Robert Giffen held that bimetallism was unattainable, and, if attained, would be dangerous.

(v) That the constant mintage of fresh supplies of rupees was objectionable, and would be obviated by an increasing circulation of sovereigns.

(vi) That until India had a gold currency in active circulation, India would continue to possess an artificial and managed currency.

(vii) That India should be encouraged to absorb gold in order to protect the world in general from a further rise of prices due to the greatly increased production of gold.

To these arguments the objectors (including the majority of the Commission) replied as follows:

Answers
to such
argu-
ments.

(i) The first argument was valid only in so far as large payments were concerned, but even there notes were preferable to gold.

(ii) History lent no support to the second argument, and it was not impossible to reach the ideal system of currency without taking the intermediate step of a gold currency.

(iii) The third argument was the result of a confusion in the minds of some people between a Gold Standard and a gold currency. In internal circulation, a wide-spread use of cheques was the most progressive system; for the cheaper the money-material, the greater was the economy in the use of the precious metals.

(iv) As for the fourth, the opinion of eminent economists and financiers, as well as the experience of the most advanced countries, was against this view; as a matter of fact, the only support for exchange in a monetary crisis had always been found to lie in the gold reserve of the banks and not in gold in the pockets of the people.¹

(v) The fifth argument was met by the reply that rupees were generally used for small payments, and a larger circulation of sovereigns would not obviate the need for the mintage of fresh rupees to any appreciable extent; on the other hand, gold coins

¹ "Gold wanted for exportation is almost invariably drawn from the reserves of banks, and is never likely to be taken from the outside circulation while banks remain solvent" (J. S. Mill, *Political Economy*, bk. iii, chap. 22).

"We only have as an effective circulation that which is required for the daily wants of the people. You cannot tap that to any extent so as to increase your central stock of gold." (Lord Goschen's Speech at the London Chamber of Commerce, 1891).



would prove a very formidable rival to the note issue, which would be most undesirable.

(vi) In regard to the sixth argument, it might be urged that a 'managed' system was not necessarily a bad system, and that it was not possible for the Government of India to manipulate the currency for their own purposes, for they would add to the active circulation of the currency only in response to public demands.

(vii) The last argument was not one of any importance, for the extent to which India should use gold must be decided solely in accordance with India's own needs and wishes, and it would be manifestly unjust to force gold coins into circulation in India on the ground that such action would benefit the gold-using countries of the world.

Chamberlain Commission's conclusion.

The conclusion at which the Chamberlain Commission arrived on this point was that gold in circulation was "wasteful", and "that it would not be to India's advantage to encourage such circulation".¹ This, however, did not dispose of the question of the adoption of a Gold Standard.

Suggested gold mint in India.

The advocates of a gold currency demanded the establishment of a gold mint in India. In March, 1912, Sir V. D. Thackersey moved a resolution in the Imperial Legislative Council urging that the Indian Mints be opened to the free coinage of gold and that distinctive Indian coins be issued.² A vigorous agitation was also carried on by Sir M. de P. Webb and his supporters to secure the same object. The Chamberlain Commission, after fully discussing the question, remarked: "We cannot recommend on its merits the establishment of a gold mint in India. But if Indian sentiment genuinely demands it, and the Government of India are prepared to incur the expense, there is, in our opinion, no objection in principle, either from the Indian or the Imperial standpoint, provided always that the coin to be minted is the sovereign

¹ Sir James Begbie, however, in his Note of Dissent said: "The true line of advance for the currency policy is to discourage an extension of the token currency by providing facilities for the distribution of gold when further increases in the currency become necessary," and he advocated the issue of a suitable gold coin from an Indian mint. (*Report*, p. 90).

² The Finance Member, Sir Guy Fleetwood Wilson, in his reply, expressed his sympathy with the proposal, but declined to commit the Government of India to any particular line of policy.

(or the half-sovereign): and it is pre-eminently a question in which Indian sentiment should prevail. If, however, the final decision be against the opening of a gold mint, we recommend that the notification of the Government's readiness to receive refined gold at the Bombay mint should be renewed on suitable terms."

A few words may be said here about the device by means of which the Gold-Exchange Standard was made to function in India. To keep up the Standard and to prevent great fluctuations in the value of the rupee, two things were essential: firstly, that importers of gold should be able to obtain rupees for their gold; and, secondly, that when gold was required for the purpose of remittance, the exporters should get it in exchange for silver. To ensure this, the Government sold and bought rupees in India and in London at the rate of 1s. 4d. the rupee *plus* or *minus*, as the case might be, the approximate cost of transport. And for these transactions, a special fund, called the Gold Standard Reserve, was created out of the profits derived from the coinage of rupees.

Device to
maintain
Gold-
Exchange
Standard.

In accordance with a recommendation made by the Fowler Committee it was decided that, with effect from the 1st April, 1900, the net profit from the coinage of rupees should not be treated as revenue, but should be credited to the Gold Standard Reserve. Up to 1906, practically the whole amount was remitted to England and appropriated to the purchase of British Government Securities, the interest realised being added to the fund and invested; but in that year it was decided that a portion of the Reserve should in future be held in silver in India. In 1907-8 and 1908-9, in consequence of a further decision, half the profits on coinage were to be applied to capital expenditure on railways, and about £1,100,000 was actually diverted for the purpose; but this decision was soon reversed. In 1914, the Indian branch of the Gold Standard Reserve was abolished on the recommendation of the Chamberlain Commission. The Currency Committee of 1919 recommended that a portion of the gold in the Gold Standard Reserve, not exceeding one-half, should be held in India; the sterling investments should, however, continue to be held in London. In 1921-22, the excess over £40 million in this Reserve was used to cancel created securities.

Gold
Standard
Reserve.



From 1922-23 to the date of establishment of the Reserve Bank (in 1934) the excess over this sum was annually added to the general revenues.¹

Had it not been for the rash policy of selling Reverse Councils amounting to over £55 million in the crisis of 1919 and 1920, India would have had a Reserve of over £95 million at that time.

Break-down of the Gold-Exchange Standard.

So much about the device by which the Gold Exchange Standard was maintained. We must now resume the history of the Standard itself. With the outbreak of World War I there was a general dislocation of trade and industry, resulting in a weak exchange. This was met by offering sterling bills or reverse drafts up to a maximum of £1,000,000 a week, and the stability of the rupee was maintained till the end of 1916. Towards the end of 1915, the export trade of India revived owing to a persistent demand for India's products at good prices. On the other hand, there was a contraction of her imports, due to the inability of foreign countries to export a sufficient volume of commodities to India. The balance of trade thus turned considerably in favour of India. Normally, her favourable balance was liquidated by foreign countries by the export of precious metals to India and also by the sale of Council Bills by the Secretary of State for India. The embargo placed on the export of precious metals by the belligerent countries left only one method available for the liquidation of India's balance of trade, namely, the sale of Council Bills. But the capacity of the Secretary of State for selling Council Bills depended upon his ability to purchase silver to replenish the rupee resources of the Government of India. Here he was confronted by the high price of silver brought about by heavy demands accompanied by a reduction in the supply. The price of silver rose continually till August, 1917, when it was no longer economically possible for the Secretary of State to sell Council Bills at

¹ On the 30th September, 1926, the reserve stood as follows:

Cash at short notice	...	...	£3,940
British Treasury Bills	...	...	£3,146,812
Other British and Dominion Government Securities	...	...	£36,849,248
Total			£40,000,000

In the interval between the 31st March, 1913, and the 31st March, 1923, the aggregate of the Gold Standard Reserve had increased to £40 million.

1s. 4½d. as he had done hitherto. It is worthy of note that when the price of silver was 43d. per ounce, the exchange value of the rupee was just equivalent to the cost of coining a rupee. Silver rose above 43d. per ounce in August, 1919, and it continued to rise till in December, 1919 it reached the abnormally high figure of 78d. per ounce. The rate of Council Bills was consequently raised till in December, 1919 it was as high as 2s. 4d. Besides, as sterling had depreciated in terms of gold, the rate for Council Bills had to be fixed a little higher to make allowance for this depreciation. The Gold-Exchange Standard thus broke down.

It was thus found necessary to appoint a Committee to consider the question. The Committee under the chairmanship of Babington-Smith recommended a rate of 2s. (gold) for the rupee. They believed that the price of silver would continue to be high for some years to come, and they thought that the maintenance of the token character of the rupee would be attended with risk unless the exchange-value of the rupee was fixed at a high figure. They also thought that a high rate of exchange would be advantageous, as it would arrest the rising tendency of prices and would incidentally cause a saving in Home Charges. The Committee did not apprehend that this policy would adversely affect Indian trade, for they believed that the world shortage of raw materials and food-stuffs would enable the Indian producer to obtain a satisfactory rupee price in spite of the high exchange, while the high cost of production in foreign countries would neutralise any advantage that might accrue to them from a high exchange rate in sending goods to this country. The Committee further recommended that during periods of exchange weakness, the Government of India should be authorised to sell Reverse Council Bills.¹

Babington-Smith Committee.

Sir Dadiba Dalal wrote a Note of Dissent, in which he strongly criticised the exchange and currency policy which had been pursued by the Secretary of State and the Government of India during and after the First World War. He urged that the ratio between the gold sovereign (or *mohur*) and the rupee should continue to be 15 to 1, any attempt to fix the rate at 2s. being, in his opinion, likely to lead to disastrous conse-

Mr. Dalal's Note of Dissent.

¹ *Report of the Babington-Smith Committee, 1920.*

quences. He suggested that Council Bills should be sold only for Government requirements and not for trade purposes, and that 'Reverse Drafts' should be sold only at 1s. 3 $\frac{2}{3}$ d., the proceeds of which were to be kept apart and utilised only for meeting drafts drawn by the Secretary of State. His other chief suggestions related to the free and unfettered exportation and importation of gold and silver bullion and coins and the coining of gold at the Bombay mint. With regard to the monetary standard, he expressed himself in favour of a Gold Standard, and observed: "India is fairly entitled to a system of sound money. The Gold-Exchange Standard has failed to provide such a system."¹

Government's
action.

The recommendations of the majority of the Babington-Smith Committee were accepted by the Secretary of State, and Mr. Dalal's note of warning was ignored. The publication of the Report coincided with a keen demand for remittances to London, and steps were at once taken to maintain the new exchange rate of 2s. gold recommended by the Committee by the offer of Reverse Councils at a rate founded on that ratio, allowance being made for the depreciation of sterling in terms of gold as shown by the dollar-sterling exchange. The rates for Reverse Councils offered by the Government varied from 2s. 3 $\frac{2}{3}$ d. (sterling) to 2s. 10 $\frac{2}{3}$ d. (sterling). By the Indian Coinage Amendment Act of 1920 the sovereign was made legal tender at Rs. 10. The attempt to hold the rate at 2s. gold led to enormous losses to the Government of India, and proved a dismal failure. The Government thereupon tried to maintain exchange at 2s. sterling. This attempt resulted in a further enormous loss to the Indian Exchequer. There were strong protests from the Indian public against this squandering of the resources of the country. The attempt was therefore abandoned from the 28th September, 1920.

The blunder committed by the Government in hastily accepting the recommendations of the Babington-Smith Committee at a time when world conditions were quite unsettled involved a huge loss not only to the Indian Exchequer, but ultimately also to the mercantile community. It was not long before

¹ Note of Dissent of Sir Dadiba Dalal to the *Report of the Babington-Smith Committee*, 1920.

the tide of exchange began to turn. Early in 1921 exchange fell below the level of 1s. 3d. sterling and 1s. gold. The 2s. ratio passed in 1920 remained on the statute-book, but was ineffective for purposes of tender of gold to the Currency Office. In January, 1923, there was another turn in the tide, and exchange recovered to 1s. 4d. sterling. Exchange showed a general tendency to move upward. In October, 1924, it reached the level of 1s. 6d. sterling, which was nearly equivalent to 1s. 4d. gold. From that time till March, 1926, the upward tendency of exchange continued. Meanwhile, sterling had been restored to parity with gold in England about the middle of 1925, and since then the rupee was for a considerable time in the neighbourhood of 1s. 6d. gold. Economic conditions in the world also became more stable.

A Royal Commission, under the presidency of Mr. Hilton Young, was appointed towards the end of 1925 to "examine and report on the Indian exchange and currency system and practice."¹ The Report of this Commission was published in July, 1926. After examining the various aspects of the question, the Commission came to the conclusion that a Gold-Exchange Standard was "not the best for India under present conditions," and that, "in order to secure public confidence in India, the currency of the country must be linked with gold in a manner that is real and conspicuously visible, or in other words, that it is necessary to establish a true Gold Standard." They added, however: "It should be understood that this does not necessarily imply a gold currency. . . . The essence of the proposal which we propose to develop is that the ordinary medium of circulation should remain as at present the currency note and the silver rupee, and that the stability of the currency in terms of gold should be secured by making the currency directly convertible into gold for all purposes, but that gold should not circulate as money. It must not circulate at first, and it need not circulate ever." The main feature of the system recommended by them—the Gold Bullion Standard—was that an obligation should be imposed by statute on the currency authority to buy and sell gold without limit at rates

Hilton
Young
Com-
mission
Report.

Gold
Bullion
Standard.

¹ Report of the Royal Commission on Indian Exchange and Currency, 1926.

determined with reference to a fixed gold parity of the rupee, but in quantities of not less than 400 fine ounces, no limitation being imposed as to the purpose for which the gold was required. The fulfilment by the currency authority of this obligation would, in the opinion of the Commission, secure the stability of the gold value of the rupee and the stability of exchange within the gold points corresponding to the selected parity. They recommended that the rupee should be stabilised in relation to gold at a rate corresponding to an exchange rate of 1s. 6d. The necessity of unity of policy in the control of currency and credit for the achievement of monetary stability led the Commission to urge the establishment of a Reserve Bank. This Bank was to be given the sole right of Note Issue for a period of about 25 years. The notes of the Bank were to be legal tender, and guaranteed by the Government. The legal right to obtain silver rupees in exchange for Notes was to be withdrawn, and the currency authority was to be under a statutory obligation to convert all notes, other than one-rupee Notes, on demand, into legal tender money, i.e., into notes of smaller denominations or silver rupees at the option of the currency authority. The other important recommendations related to the unification of the Gold Standard and Paper Currency Reserves and to the re-issue of one-rupee notes.¹

Sir Purushottamdas Thakurdas's
Note of
Dissent.

Sir Purushottamdas Thakurdas appended a Note of Dissent to the Report, in which he urged, among other things, the establishment of a Gold Standard proper and the fixing of the rupee at 1s. 4d. With regard to the latter proposal, he apprehended that if the recommendation of the majority to stabilise the rupee at 1s. 6d. were accepted, India would be faced with a very serious disturbance in her economic organisation during the next few years, the consequences of which were likely to be disastrous. "Until adjustment is complete," he said, "agriculture threatens to become unattractive and less remunerative than it is today, and industries will have to undergo a painful process of adjustment, unnatural, unwarranted, and unavoidable—an adjustment which will be much to their cost, and affect not only their stability and their progress, but, in certain cases,

¹ *Report of the Hilton Young Commission, 1926.*

their very existence. And should nature have in store for India a couple of lean years after the four good harvests that we have had, during the period of forced adjustment to a rate of 1s. 6d., the steps that the currency authority will have to take to maintain exchange at this rate may deplete the gold resources of the country to an extent that may seriously shake the confidence of her people in the currency system recommended."¹

The main proposals of the Commission were placed before the Indian legislature in three Bills. The object of the Currency Bill was to give effect to those recommendations of the Hilton Young Commission which related to the immediate stabilisation of the rupee in relation to gold. The Bill provided for fixing the gold value of the rupee at 1s. 6d. It laid an obligation upon the Government to buy gold bullion when tendered at the rate of Rs. 21-3 as. 10 p. per tola of fine gold in the form of bars containing approximately fifteen fine ounces. An obligation was also laid upon the Government to sell at its option either gold at the Bombay mint at the above-mentioned rate or gold exchange at an equivalent rate payable in Gold Standard countries outside India at the gold points of the accepted gold parity of the rupee, provided that no person was to be entitled to demand gold of less value than four hundred fine ounces or gold-exchange payable in any one country of less than that value. Another provision was to remove the legal tender quality of the sovereign and the half-sovereign.

The
Currency
Bill.

The ratio question gave rise to a great deal of controversy. When the Currency Bill came up for discussion before the Legislative Assembly, Sir Basil Blackett, the then Finance Member, expressed the view that the silver rupee had no natural value other than the value of the silver bullion which it contained, and that no one ratio for the rupee could possibly be permanently more advantageous for India than another. He defended the 1s. 6d. ratio.²

Argu-
ments for
1s. 6d.

¹ Note of Dissent of Sir Purushottamdas Thakurdas to the *Report of the Royal (Hilton Young) Commission on Indian Exchange and Currency*, 1926.

² The grounds of defence advanced by Sir Basil Blackett were:

(1) That the rupee had been fairly steady at this rate for over two years; (2) that the prices had adjusted themselves in a preponderant degree to the 1s. 6d. ratio; (3) that the equilibrium of every budget in India, central and provincial, would be upset if a lower ratio were

Demonetisation of sovereign.

The demonetisation of the sovereign was also objected to by many of the elected members of the Assembly, who considered the provision as a retrograde one and thought it would stand in the way of India ever attaining a Gold Standard with a gold currency in future. This was also likely to give a fillip to the hoarding habit among the people, which had been, as a consequence of the increasing familiarity with the precious metals, on the wane.

Bill passed.

The Bill, however, was passed by the Legislative Assembly and the Council of State in March, 1927. From that time the ratio was fairly steady at 1s. 6d. It must, however, be noted that deflation took place to a substantial extent and that the money market experienced considerable stringency. It was, indeed, a sad commentary on Government action that in the slack season of May, 1928, the Imperial Bank rate rose to 7 per cent., and that the Finance Member was compelled to raise a sterling loan in England in violation of the pledge he had previously given.

The nature of the monetary standard.

The Gold-Exchange Standard was thus rehabilitated with a legal sanction behind it. The external value of the rupee was directly linked to gold. Sterling now became merely a convenient medium for securing that connection. If sterling depre-

adopted, entailing the imposition of additional taxation all round; (4) that if the 1s. 4d. ratio were adopted, a considerable amount of inflation would have to be resorted to; and (5) that it would mean a curtailment of the real wages of labourers, bringing in its wake industrial unrest in the shape of strikes and lockouts.

Arguments against 1s. 6d.

The popular leaders, on the other hand, pointed out (1) that the rupee had been fairly steady at the 1s. 4d. rate for nearly 20 years; (2) that the relative price levels in India and other principal countries were very nearly the same at the end of 1926 as they had been before World War I, thus pointing to the conclusion that the 1s. 4d. rate seemed to approximate closely to the 'natural' ratio; (3) that the 1s. 6d. ratio had been artificially worked up to; (4) that proper adjustments to the 1s. 6d. rate had not taken place in all directions; (5) that in the absence of an adjustment, indigenous industries would suffer in competition with imported goods; (6) that as the exports from India exceeded the imports, the country as a whole would be a loser by the adoption of the higher ratio; (7) that the effect of the policy of discriminating protection recently adopted would be nullified to a considerable extent; (8) that a considerable amount of deflation would be needed, which might hamper the development of industries owing to a contraction of credit; (9) that it would be difficult to maintain the 1s. 6d. ratio in view of the likelihood of a fall in world gold prices; (10) that the Gold Standard Reserve stood in serious danger of being frittered away in the attempt to maintain the ratio at the artificially high level; and (11) that the maintenance of an artificially high ratio would imply concealed additional taxation.

ciated in future in terms of gold, the rate of exchange between the rupee and the sterling would, it was expected, no longer remain stable, though the rupee would be worth the same amount of gold as before. But these intentions were not actually realised, as subsequent events showed.

The years 1927 and 1928 were marked by a comparative stability of economic conditions, both in India and outside. But a world-wide economic depression set in towards the end of 1929, agricultural countries being the first to be affected. Its repercussions began to be felt in India from 1930 onwards, with the decline of Indian exports and the consequent shrinkage of her favourable balance of trade. It became, therefore, increasingly difficult to maintain exchange stability. By the middle of 1931 the economic situation in Europe became very critical. Foreigners who had invested in Indian Treasury Bills, i.e., short-term obligations of the Government of India, began to withdraw funds. The Government of India were then compelled to sell Reverse Councils to keep up the rate of exchange. The climax was reached when England suspended the Gold Standard on the 21st September, 1931. The Government of India at once suspended the Currency Act of 1927, and thus severed the link of the rupee with gold. But only three days afterwards, on the 25th September, 1931, the rupee was linked to sterling. As sterling was fast depreciating in terms of gold at this time, there was the possibility of speculation in exchange being practised in India. Such speculation would have made it impossible to maintain stability of exchange between the rupee and sterling. A system of exchange control was, therefore, introduced, but it was found to be unnecessary, and the control was withdrawn at the end of January, 1932. There was, on the whole, a marked stability of exchange between September, 1931, and the first few months of the year 1938. Thus, India was made to revert to the Sterling-Exchange Standard, in spite of the warnings of the Hilton Young Commission.

The financial crisis.

Sterling Exchange Standard.

The chief explanation of exchange stability from 1931 was to be found in the regular exports of huge quantities of gold from India from September, 1931. We have already noted the decrease in our favourable balance of trade during the depression. This would have made it impossible to maintain the rate

Exchange stable after 1931.



Gold
exports.

of exchange if the decrease in the export of commodities had not been made up by the exports of gold. Opinions differed regarding the causes of this outflow of gold. One view was that it was a symptom as well as the effect of the depression. It was held that the staggering fall in prices and incomes compelled people to release the gold which had been piled up in idle hoards during prosperous years. Another view found the explanation in the linking of the rupee with sterling which continued to depreciate in terms of gold. This continuing depreciation of sterling created and maintained a gap between the price of gold in India and its price outside. It was only natural that gold should be exported with a view to obtaining the higher price to be obtained abroad. Both the factors, *viz.*, the economic distress within the country as well as the exchange factor, seemed to have been in operation, though it was difficult to determine which of the two was the more important. It is to be remembered that in the later thirties, there was a great increase in the demand for gold in the West, which led to a substantial rise in the price.

Reform of
coinage.

A few words ought to be said here about the coinage. In 1896, a reform of the coinage was undertaken. The '1835' rupees ceased to be re-issued, and in 1901-2 orders were given for the cessation of the re-issue of the '1840' rupees. In 1906, bronze coins were issued as tokens for small transactions, and they are now gradually superseding the old copper coins. In 1909, one-anna nickel pieces began to be coined; later on, four-anna and two-anna nickel pieces were also coined.

Paper
Currency.

We come now to a consideration of the Paper Currency system of the country. As in other countries, the origin of the Paper Currency system in India may be traced back to the bank-notes issued in the early days of the East India Company by private banks, some of which carried on both mercantile and banking business. These notes were not legal tender, and their issue was unregulated by law. The circulation was generally confined to the locale of the issuing banks. By 1830 most of the private banks ceased to issue notes. Meanwhile, the three Presidency Banks of Bengal, Bombay and Madras, were empowered to issue notes in accordance with the regulations of their respective charters of incorpora-

Early
history.



tion. These charters were replaced by new Acts in 1839, 1840, and 1843, which fixed the maximum amount of Note Issue for each Bank. The authorised maximum issue for the three Presidency Banks was Rs. 5 crores in the aggregate. A reserve of one-fourth of the amount of notes issued was to be held in specie. The actual amount issued was always much less than the maximum permitted, and the circulation was practically confined to the Presidency towns. Nevertheless, the bank-notes served to familiarise the public with paper money, although they were not legal tender.

After the Mutiny, the Government considered it desirable to take steps to develop the Paper Currency. It was found that the amount of coins in circulation had been increasing apace for some years past, owing to the increase in the volume of foreign trade. It would be very economical for the country if the need for more money could be met with paper currency. But paper currency would not be widely used unless it were made legal tender, and before that was done it was desirable to ensure its convertibility into coins. On these grounds, it was considered necessary that the Government should undertake the issue of paper currency directly. Accordingly, by an Act of 1861, the right of Note Issue by private banks and Presidency Banks was abolished, and the Government undertook the monopoly of Note Issue through a Government department.

Issue by
the Gov-
ernment.

Under the Paper Currency Act, 1905, paper currency notes of the following denominations, *viz.*, Rs. 5, Rs. 10, Rs. 50, Rs. 100, Rs. 500, Rs. 1000, Rs. 10,000 were issued to the public. They were issued without limit in every Paper Currency office against rupees or gold. There were eight circles of issue, having their headquarters at Calcutta, Kanpur, Lahore, Bombay, Karachi, Madras, Calicut, and Rangoon respectively; and until 1910, the notes were legal under only within the particular circle from which they had been issued. The Government were not legally bound to cash any notes outside their circle of issue; but, as a matter of fact, they were cashed in any Government Treasury (if they were not for very large sums), and also by the Presidency Banks. The reason for this restriction was that if notes were cashable in all circles the cost of carrying rupees from one

Denomi-
nation of
Notes.

Circles of
issue.



part of the country to another would fall on the Government, and a considerable reserve would have to be kept at each centre to meet the demands for cash.

The uni-
versalising
process.

In 1909, the five-rupee note, which had previously been made legal tender throughout India, was declared to be legal tender in Burma. The growing popularity of the universal five-rupee note led the Government to further universalise the Paper Currency, and in 1910 the ten- and fifty-rupee notes were made universal. The hundred-rupee note was also declared universal in 1911.¹

Paper
Currency
Reserve.

The law required that a Paper Currency Reserve should be held against the notes equal to their full value. Under the Act of 1861 notes could be issued against the Securities of the Government of India up to a maximum of 4 crores. The issue of notes against Securities was raised by various Acts, and just before the First World War the Securities stood at 14 crores, of which 4 crores were British Government Securities and the remainder Indian Government Securities. Till 1898, the whole of the remaining portion of the Reserve was held in silver coin in India. But under the Gold Note Act of that year the Government of India obtained authority to hold any part of the metallic portion of the Reserve in gold coin. An Act of 1900 made it legal to hold part of this gold in London. In 1905, the Government was given full power to hold the metallic portion of the Reserve or any part of it, at its discretion, either in London or in India, or partly in both places, and also in gold coin or bullion, or in rupees or silver bullion, subject only to the exception that all coined rupees should be kept in India.

Effect of
the war on
the com-
position.

The needs of finance for World War I, together with a heavy demand for Council Bills, necessitated a large expansion of Note Issue. But the strengthening of the Reserve was rendered difficult by the high price of silver, which prevented the coinage of fresh rupees and the absorption of large quantities in the up-country districts. The result was a large increase in the fiduciary issue. By various Acts and Ordinances the fiduciary issue was increased to 120 crores in 1919 and the per-

¹ The Chamberlain Commission recommended the immediate universalisation of the 50-rupee note. (*Report*, p. 26).



centage of metallic backing to the total issue was 44·6 as against 78·9 in 1914. The currency situation was extremely acute during the first half of 1918, when the silver portion of the Reserve dwindled down to a little more than 4 crores. The situation was, however, saved by the acquisition of silver from the United States Government under the Pittman Act.

During the inter-war period the composition of the Paper Currency Reserve was regulated by the Act of 1920 as amended by the Acts of 1923 and 1925. Under these Acts it was provided that the metallic portion of the Reserve should not be less than 50 per cent. of the Currency Notes in circulation. But as it was found difficult to conform to this condition, it was further provided that the securities should be limited to 85 crores, which amount was subsequently increased to 100 crores.

The Indian system of Note Issue was formerly modelled on that of the Bank of England as regulated by the Bank Charter Act of 1844, and the restrictions were provided with the object of preventing the abuses attendant on the issue of Notes without the backing of a metallic reserve. The result was that in the busy season the money-market became tight and the rate of interest rose very high, while in the slack season money was plentiful and the rate of interest dropped. These fluctuations caused great inconvenience and uneasiness to trade and commerce. To remedy this inelasticity of our currency the Act of 1920 (amended in 1923 and 1925) made two new departures in our currency practice. In the first place, it provided that 50 per cent. of the Paper Currency Reserve might be held in securities, so that with every increase in the metallic currency, the scope for the expansion of Paper Currency would largely increase, and consequently the inelasticity of currency would be gradually remedied to a greater and greater extent. In the second place, it provided for the issue of additional Paper Currency up to 5 crores against bills of exchange or *hundis* maturing within 90 days, to the Imperial Bank of India at a rate of interest not below 8 per cent. The issue of Currency Notes when the bank rate was as high as 8 per cent. involved hardships to the borrowers, with the result that the Act had to be so amended as to allow a loan of Rs. 4 crores when the bank rate was 6 per cent., and thereafter with every rise in the bank

Paper
Currency
Act, 1920.

Issue of
emergency
currency.

Location.

rate by one per cent. an additional issue of 4 crores would be available up to a maximum of 12 crores. This provision corresponded in some measure with the issue of emergency currency by the Bank of England when the banks were in need of temporary accommodation owing to stringency in the money-market. The location of a portion of the Reserve in London formed the subject of adverse criticism. As the object of the Reserve was the redemption of Notes in India, there seemed to be no valid reason why the whole of it should not be held in India. The view that the Paper Currency Reserve should be held as a second line of defence for the support of exchange could hardly be regarded as sound.

Subsequent changes.

The Hilton Young Commission recommended that the Paper Currency Reserve should be amalgamated with the Gold Standard Reserve, and the combined resources should be placed with a Reserve Bank which would take over the management of the currency system from the hands of the Government. These recommendations were carried into effect in 1935. The arrangements made at that time with regard to Paper Currency will be described in the next chapter.

Council Bills.

The political and economic connection of India with Great Britain necessitated the remittance of large sums of money annually to the Secretary of State for India. These remittances constituted what were known as the Home Charges. The practice of drawing funds from India to meet the Home Charges by means of bills of exchange on India was inherited by the India Office from the East India Company. The Secretary of State for India took the initiative in this remittance business by drawing bills on India, and these bills were known as Council Bills. The favourable balance of trade which India normally enjoyed made this system possible, and, at the same time, economical. The Secretary of State for India required money in London for disbursement on behalf of India, and many merchants abroad required funds for remittance to India for the purchase of Indian produce. When the Secretary of State for India sold Council Bills on the Government of India, he received funds in sterling in London, while the merchants obtained funds in rupees in India. Thus the system obviated the necessity for the double shipment of bullion between the



two countries. 'Telegraphic Transfers' were sold at slightly higher rates to those merchants who wanted to avoid the delay of sixteen or seventeen days which the Council Bills took to reach India.¹

Up to 1905, the sale of Council Bills was limited to the requirements of the Secretary of State for India. But the experience gained from the working of the Gold-Exchange Standard showed that the sale of Council Bills should not be limited to the amount of Home Charges alone. From 1905 the Secretary of State for India began to sell Council Bills to meet the demands of trade by a standing offer of bills within specie points. This system assumed considerable importance in the financial machinery of India, and the financing of India's export trade practically hinged upon the sale of Council Bills. It was in practice the only method by which additional currency could be supplied to the market wherever there was stringency.

Later development.

It is clear that, in a normal year, with a favourable balance of trade, the rate of exchange could be prevented from rising beyond 1s. 4d. by selling as many Council Bills as necessary. When the exchange began to fall during the crisis of 1907-08, the system was modified to suit the new situation. There was no demand for Council Bills in London, as the balance of trade was adverse. On the contrary, there was a keen demand for remittance of funds from India to England. The absence of facilities for such remittance had led to a fall in the rate of exchange. The Government of India, therefore, took to the selling of 'Reverse Council Bills', drawn on the Secretary of State, at the official rate of exchange. These were cashed out of the Gold Standard Reserve in London, and they served to keep the rate of exchange stable.

Reverse Councils.

During the First World War, the sale of Council Bills was the subject of much adverse criticism. The control of exchange was accompanied by secrecy and by the sale of Councils to 'approved parties'. The merchants were absolutely at the mercy of the Secretary of State for India for the remittance of funds to India, as the alternative of gold exports from European

First World War and after.

¹ The price charged for Telegraphic Transfers was ordinarily $\frac{1}{4}$ d. higher than that charged for Council Bills; but when the Calcutta or Bombay bank rate exceeded 8 per cent., the Secretary of State charged $\frac{1}{8}$ d. more than the price of Bills.

countries was non-existent. The rise in the price of silver disorganised the exchange market, and the rate had to be varied in accordance with the sterling price of silver. After September, 1920, the Government abandoned the attempt to regulate the rate of exchange.

Later
system.

The remittance operations of the Government always exerted an important influence upon the exchange rate. It was realised later on that the rate of exchange could be regulated far more efficiently from India than from London. This led to a discontinuance of the sale of Council Bills, and to the adoption of the method of remittance by the purchase of sterling in the open market in India. The purchase was effected by public tender. The remittance business is now being handled by the Reserve Bank of India.

The total amounts of currency in recent years are given below :

Volume of
currency.

		(in lakhs of Rupees)		
		Circulation		
Year		Notes	Rupee Coin	Total (1 + 2)
		1	2	3
1938-39	...	178,30	...	...
1948-49	...	1,169,35	149,43	1,318,78
1949-50	...	1,163,52	147,80	1,311,32

CHAPTER XI

EXCHANGE—(Concluded)

CREDIT

CREDIT is an indispensable factor in business. In the towns there are Indian bankers or *shroffs* who generally do banking business on a small scale. They finance nearly the whole of the internal trade of India, but they rarely, if ever, discount European paper and never purchase foreign or sterling bills. They do, sometimes, lend money on Government paper or similar securities, but the bulk of their business consists in the discounting of traders' *hundis* and in advances to cultivators. In the villages, as we have seen, the *mahajan* lends money to the agriculturists and other people in the neighbourhood. The petty *mahajan* knows the affairs of his constituents intimately, and the possession of this local knowledge gives him a great advantage over a big banking concern. Loans are taken by means of hand-notes (*khuts*) or by the pawning of jewellery, or, as is sometimes the case, by mortgages of property. The aggregate of the transactions of the *mahajan* and *shroffs* amounts to an enormous sum. The indigenous system.

In no advanced country in the world are banking facilities so inadequate as in this country. India, with a population of over 345 millions, has only 5,277 banking offices.¹ For the Indian Union as a whole there is one banking office on the average for every 65,884 of the population. The total number of offices of the different classes of banks were: the Imperial Bank, 367; Exchange Banks, 62; other Indian Scheduled banks, 2,494; non-scheduled banks, 1,781; co-operative banks, 583; total 5,277. It is thus evident how inadequately developed are banking facilities in India, with the result that the "financial power of India is insufficiently mobilised." Inadequacy of banks.

¹ The figure relates to the year 1948. Reserve Bank of India Bulletin, July, 1950.



As a result of the establishment of a large number of new banking companies and the extension of branches by existing companies, there has been a considerable improvement in banking facilities in India during and after World War II. The total number of banking offices of scheduled banks and non-scheduled banks (excluding those with capital and reserves below Rs. 50,000) rose from 2,913 and 1,531 respectively in 1940 (for undivided India), to 2,913 and 1,531 respectively, in 1948 (for the Indian Union). There were 236 offices of non-scheduled banks having capital and reserves below Rs. 50,000 in the latter year. The development of banking facilities was mainly confined to the larger towns and cities.

There is a greater variety in the Indian banking system than is to be found in most other countries. At the apex is the Reserve Bank of India, constituted in 1935, which is the Central Bank of the country, having a monopoly of the Note Issue. Next comes the Imperial Bank, constituted in 1920, which was, till 1935, a quasi-Central Bank, and which, by virtue of its predominance and special position, stands in a class by itself. Then there are the Exchange Banks, all of which are foreign concerns, engaged principally in financing the external trade of the country. The Indian Joint-Stock Banks, the proper development of which constitutes the chief problem in Indian banking, form still another class. It would be convenient to discuss them in the order mentioned above.

The establishment of the Reserve Bank marks the culmination of a long period of development. Proposals for an institution similar to a Central Bank were submitted as early as 1836 to the Directors of the East India Company by a number of English merchants. Similar proposals were considered again in 1860, when the Government were contemplating the taking over of the Note Issue from the Presidency Banks, and again in 1867, when the Bank of Bombay went into liquidation. A proposal for a State Bank was made by one of the members of the Fowler Committee of 1898. But none of these proposals could materialise owing to the opposition of the Government. The Chamberlain Commission referred to the question of a Central Bank, but did not commit themselves either way. A carefully drawn-up scheme for a State Bank was, however,

The
banking
system.

The
Reserve
Bank:

its evolu-
tion.



submitted by Mr. J. M. Keynes and Sir E. Cable, both of whom were members of the Commission. When the Imperial Bank was founded in 1920, it served to a certain extent to remove the difficulties arising out of the absence of a Central Bank. But it was felt in many quarters that it was no substitute for a Central Bank proper.

The Report of the Hilton Young Commission brought matters to a head. This Commission expressed the view that the necessity of unity of policy in the control of currency and credit for the achievement of monetary stability involved the establishment of a Central Banking system. They recommended that the Central Banking functions should be entrusted to a new organisation, to be called the Reserve Bank of India, and outlined the constitution, functions and capacities of this bank. The Commission rejected the idea of a State Bank, on the ground that such a bank would be susceptible to undesirable political influences, and they recommended the establishment of a Shareholders' Bank.

Hilton
Young
Commis-
sion's
recommen-
dations.

These recommendations were embodied in a Bill which was placed before the Indian Legislative Assembly in January, 1927. A great deal of difference of opinion was expressed on the main provisions of the Bill. The Select Committee, to which the Bill was referred, altered some of its important provisions. That body decided that the Reserve Bank should be a State Bank. The composition of the Board of Management was substantially altered, and the disqualification sought to be attached to membership of legislatures was removed. The Bill as amended in the Select Committee was placed before the Legislative Assembly, and an animated discussion took place on the amendments. At this stage, a proposal was made on behalf of the Government to convert the proposed bank into a Stockholders' Bank. But the further progress of the measure was suspended under the direction of the Secretary of State for India. The Finance Member paid a hurried visit to England to consult the authorities there, and on his return to India he placed before the Legislative Assembly a fresh Bill on the lines of the original measure with a few modifications in detail. The discussion of the new Bill was, however, disallowed by the President on the ground that the previous Bill was already

Bills of
1927.



under the consideration of the Assembly. The old Bill was then taken up by the Government, but they were defeated in the voting on one of its clauses. It was, therefore, dropped in February, 1928, and the whole question was postponed *sine die*.

Later
develop-
ments.

At this stage, the problem was approached from a new angle by the Government in connection with the proposed constitutional changes. In their Despatch on the proposals of the Simon Commission, dated 20th September, 1930, they argued that the formation of the Central Bank on approved lines must precede the transfer of financial responsibility to a minister responsible to the Indian Legislature. The Federal Structure Sub-Committee of the First Round-Table Conference in their Report, dated the 13th January, 1931, endorsed this opinion, and "with a view to ensuring confidence in the management of Indian credit and currency" recommended that "efforts should be made to establish on sure foundations and free from any political influence, as early as may be found possible, a Reserve Bank which will be entrusted with the management of the currency and exchange."

Meanwhile, the Central Banking Enquiry Committee, in their Report published in June, 1931, strongly urged the formation of a Central Bank at the earliest possible date, with a view to the development of banking in the country. The constitutional proposals embodied in the 'White Paper' of 1933 assumed the establishment of a Reserve Bank prior to the inauguration of the new Constitution. Accordingly, a Committee, presided over by the Secretary of State, and consisting of 23 members, a number of whom were Indians, met in London in July, 1933, with the purpose of drafting the Reserve Bank Bill. Based on their Report, a Bill was introduced in the Indian Legislature in September, 1933, and passed by both Houses in February, 1934. It received the assent of the Governor-General on the 6th March, 1934 as the Reserve Bank of India Act, 1934. In accordance with the provisions of this Act, the Reserve Bank was inaugurated on the 1st April, 1935.

The
Reserve
Bank Act

Reserve
Bank—a
share-
holders'
bank.

The Reserve Bank was established as a shareholders' bank, the original capital being Rs. 5 crores, divided into shares of Rs. 100 each, fully paid-up. The capital might be increased or decreased with the sanction of the Government, and with the approval of the Central Legislature. Separate registers of



shareholders were maintained at Bombay, Calcutta, Delhi, Madras, and Rangoon, shares being transferable from one register to another.¹ Each shareholder had one vote for every five shares held, subject to a maximum of ten votes.

The Bank has offices in London and in Bombay, Calcutta, Delhi and Madras, and may establish branches or agencies in any other place in India, or, with the previous sanction of the Central Government, elsewhere.

The Bank was, until recently, managed by a Central Board of sixteen Directors, partly nominated by the Governor-General in Council and partly elected by the shareholders on the various registers². All the members of the Central Board, including the Governor and the Deputy Governor, are now appointed or nominated by the Central Government. Besides, there was a Local Board for each of the five areas consisting of not more than eight members, five of whom were elected by the shareholders on the register for that area, while the remaining members were nominated by the Central Board. All the members of the Local Boards are now nominated by the Central Government. The function of the Local Boards was to advise the Central Board on matters referred to them, and to perform such duties as were delegated to them by it.

Offices.

Organisa-
tion and
manage-
ment at
the start.

¹ A separate issue of shares in each of the areas served by these registers was made at the time of the establishment of the Bank, different amounts of shares being assigned to each register in accordance with the Act. Shares of the nominal value of Rs. 2,20,000 were reserved for and held by the Government for disposal at par to Directors seeking to obtain the minimum share qualifications.

Under the Act as amended a shareholder was to be (a) domiciled in India, and either an Indian subject of His Majesty or a subject of an Indian state, or (b) a British subject ordinarily resident in India and domiciled in the United Kingdom, or in any part of His Majesty's Dominions the government of which does not discriminate in any way against Indians, or (c), (i) a company or a co-operative society registered in India, or (ii) a 'scheduled bank', or (iii) a company incorporated under an Act of Parliament or under laws in force in any part of His Majesty's Dominions the government of which did not discriminate in any way against Indians.

Qualifica-
tions of
share-
holders.

² Two Directors were elected for each of the three registers in Bombay, Calcutta, and Delhi respectively, and one Director was elected for each of the two registers in Madras and Rangoon respectively. A Director of the Central Board or a member of a Local Board must not be (a) a salaried Government official or a salaried official of an Indian state, or (b) a member of either the Central Legislature or of any of the Provincial Legislatures, or (c) an employee of any bank, or (d) a director of any bank other than a co-operative bank, or (e) an insolvent person, or (f) a person of unsound mind.



Functions
of the
Reserve
Bank.
As Gov-
ernment
banker.

The functions of the Reserve Bank may conveniently be studied under three heads, *viz.*, as banker to the Government, as the currency authority of the country, and as the bankers' bank. As the Government's banker, the Reserve Bank accepts moneys and makes payments on behalf of the Government, and carries on their exchange, remittance, and other banking operations, including the management of the public debt and the issue of new loans. Besides, the Bank is entitled to receive the cash balances of the Government for deposit free of interest at places where the Bank has branches or agencies. From the 1st April, 1937, the Provincial Governments opened separate banking accounts with the Reserve Bank.

Functions
relating to
currency.

Two
depart-
ments.

As currency authority, the Bank has a monopoly of Note Issue, and it is under an obligation to buy and sell sterling with a view to maintaining the exchange value of the rupee in terms of sterling at 1s. 6d. For purposes of Note Issue, an Issue Department, separate from the General or Banking Department, was created. This Department took over all the gold held formerly in the Gold Standard and Paper Currency Reserves, together with a part of the other assets, so that the gold and the assets, taken together, are equal in value to the total of the Government Notes in circulation at the time of the transfer. Liability for these Government Notes was also undertaken by the Issue Department. Both the Gold Standard Reserve and the Paper Currency Reserve were thus abolished, and their resources concentrated.

Liabilities
and assets
of the
Issue De-
partment.

The liabilities of the Issue Department consist in the total of the Notes in circulation, including the old Government Notes in circulation, as also the Notes held in the Banking Department.

Propor-
tional
reserve
system.

Thus the Note Issue is made according to the proportional reserve system, and not the fiduciary reserve system, as heretofore. The bank-notes are legal tender and are guaranteed by the Government of India. They were first issued to the public in January, 1938.

As regards the purchase and sale of sterling for maintaining exchange, these are not to be made for amounts of less than £10,000 in any instance. The Act recognises exchange stability to be a temporary arrangement, leaving the question of the



best monetary standard to be considered when international monetary conditions become more stable.

As the bankers' bank, or the Central Bank of the country, the position of the Reserve Bank is regulated by a number of provisions in the Act. Thus the kinds of business that the Bank may transact are here specified. These include the rediscounting of internal bills of exchange maturing within 90 days, and of agricultural bills maturing within 9 months. There is, besides, provision for 'open market operations', when, in the opinion of the Bank, a special occasion for such operations arises. The Bank is prohibited, among other things, from competing with ordinary banks by engaging in trade, or otherwise taking a direct interest in any commercial or industrial undertaking, and from dealing in immovable property.¹

Functions
as the
bankers'
bank.

Restric-
tions on
the Bank's
activities.

As against the restrictions imposed on the Reserve Bank's activities by the Act, certain privileges were granted to it, such as the exemption of the Bank from the payment of income-tax or super-tax on its income and profits. Another privilege, essential to its functioning as a Central Bank, consists in its being entitled to hold the cash reserves of the more important banks of the country, which are designated as 'scheduled banks' in the Reserve Bank Act. The 'scheduled banks' include the

The
Bank's
privileges.

¹ These provisions, which aim at keeping the Bank out of speculative transactions, were reinforced by a statutory limitation on the profits annually payable to the shareholders. The maximum rate of profits allowed under the Act was a cumulative dividend of 5 per cent. per annum on the share capital of the Bank, plus an additional rate, depending on the surplus, which worked out to a maximum of about 1 per cent. Any surplus remaining after the payment of dividends to shareholders was to be paid by the Bank to the Governor-General in Council. By this arrangement the Government secured a sort of indirect return for the assets transferred to the Reserve Bank from the Gold Standard and Paper Currency Reserves.

Limitation
of profits.

The solvency and safety of the Bank were finally assured by the institution of the Reserve Fund, which was created by the transference to the Bank of Rupee Securities of the value of five crores of rupees by the Governor-General in Council. Should the capital of the Bank be increased in future, the Reserve Fund was to be increased by an equivalent amount out of the Bank's own resources.

The
Reserve
Fund.

The wide range of the functions and responsibilities of the Reserve Bank necessitated a considerable measure of governmental control over the Bank, notwithstanding the fact that it was not a Government institution. Thus, as we have already seen, out of sixteen Directors of the Central Board, seven, including the Governor and the two Deputy Governors, were nominated by the Governor-General, while one other Director was a government officer.

Govern-
ment con-
trol over
the Bank.



Imperial Bank, the chief Joint-Stock Banks and the Exchange Banks.

Agricultural
Credit Department.

A special feature of the Reserve Bank is the Agricultural Credit Department, which studies questions of agricultural credit and attempts to co-ordinate the operations of the Bank in this direction as well as its relations with the indigenous banking concerns and the provincial co-operative banks.

The Reserve Bank Act was modified by sections 152 and 153 of the Government of India Act, 1935. Under these sections, no Bill affecting the constitution or functions of the Reserve Bank might be introduced in the Federal Legislature without the previous sanction of the Governor-General, and the power of appointing, nominating, and removing from office the Governor, Deputy Governors, and Directors of the Central Board was vested in the Governor-General himself.

The Reserve Bank (Transfer to Public Ownership) Bill was passed on the 3rd September, 1948. According to the Act, the value of the compensation payable to the shareholders was fixed at Rs. 118-10-0 as per share to be paid in the form of Government Promissory Notes bearing interest at 3 per cent. and repayable at par on such date as might be fixed by the Government. Under the Act all the Directors of the Central Board, including the Governor and the two Deputy Governors and all the members of the Local Boards, are appointed or nominated by the Central Government. The Reserve Bank has thus become a State Bank. The Bank's functions, duties and responsibilities remain as before. A Bill to amend the Reserve Bank of India Act is now before Parliament.

Imperial
Bank the
agent of the
Reserve
Bank.

The Reserve Bank was expected to take advantage of the experience and of the large organisation of the Imperial Bank, and, accordingly, it has entered into an agreement with the latter under conditions specified in the Act.

The Presidency
Banks.

The Imperial Bank was formed by the amalgamation of the Presidency Banks. The Presidency Bank of Bengal was established in 1806, that of Bombay in 1840, and the Bank of Madras in 1843. They were originally semi-Government institutions. At one time they enjoyed the privilege of issuing bank-notes, which privilege was withdrawn by the Act of 1861.



The constitution and management of the Imperial Bank are regulated by Imperial Bank Act of 1920, as amended in 1934. This Act prescribes the kind of business which it can undertake. The control of the Imperial Bank is entrusted to a Central Board of Directors, with Local Boards at Calcutta, Bombay, and Madras, and such other places as the Central Board may determine. The Central Board consists of (a) the President, the Vice-Presidents and the Secretaries of the Local Boards, (b) one person elected from amongst the members by each Local Board, (c) a Managing Director and a Deputy Managing Director appointed by the Central Board, and (d) not more than two non-officials nominated by the Central Government.

The
Imperial
Bank.

The principal restrictions placed at present on the business of the Imperial Bank are as follows: In the first place, it is not permitted to make any loan or advance, (a) for a period longer than six months, except in a few stated cases; (b) upon the security of its own stock or shares; (c) upon mortgage or security of immovable property generally. Secondly, the amount which may be advanced to any individual or partnership concern is limited. Thirdly, discounts or advances cannot be made on personal security, unless there is the individual responsibility of at least two persons or firms, not in general partnership with each other. Fourthly, discounts or advances cannot be made against any security not being a security in which a trustee may invest trust money under the Indian Trusts Act, 1882.

The agreement between the Reserve Bank of India and the Imperial Bank is for a period of fifteen years and thereafter, until terminated after five years' notice on either side. According to this arrangement, the Imperial Bank is the sole agent of the Reserve Bank at all places in India where the former had a branch at the time of the inauguration of the Reserve Bank, and where there is no branch of the Banking Department of the Reserve Bank. The Imperial Bank is not permitted, without the sanction of the Reserve Bank, to open any branch in substitution for a branch existing at the time when the Agreement came into operation. In consideration of the agency services performed by it, the Imperial Bank receives from the Reserve Bank of India a certain sum depending, during the

Agree-
ment with
Reserve
Bank.



first ten years of the Agreement, on the volume of business transacted by it on behalf of the Reserve Bank, and, during the next five years and afterwards, on the actual cost incurred for that purpose. In addition, it receives certain stated sums for maintaining at least as many branches as it had at the time of the inception of the Reserve Bank.

Extent of
business.

The extent and growth of business of the Imperial Bank in recent years may be seen from the following figures:

Branches.

The Imperial Bank of India has at present 185 branches and 202 sub-offices in different parts of the country. These are under the direct control of the local head offices, and their funds are included in those of the head offices.

Along with the demand for nationalising the Reserve Bank, there was an insistent demand for the nationalisation of the Imperial Bank of India. Although the Finance Minister had categorically stated that the Government did not intend to nationalise other Commercial Banks, they appeared at one time to have favoured the nationalisation of the Imperial Bank. As the Bank had branches outside India, they had to consider carefully the various technical questions connected with such a step. It was declared that compensation would be paid to the shareholders on a basis similar to that adopted in the case of the Reserve Bank and that the interests of the government as well as of the shareholders would be safeguarded. The question of nationalisation of the Imperial Bank has now been postponed.

Exchange
Banks.

Next in importance to the Imperial Bank of India are the Exchange Banks, which are concerned mainly with the larger operations of commerce, and one of the most important of their functions is to finance the export trade. They buy and sell bills of exchange in the Indian as well as in the foreign markets. Some of them have offices in different parts of the world. The shareholders of these banks are mostly Europeans, but Indians deposit their moneys with them, on which they get interest at low rates. The most important of such banks are the Chartered Bank, the National Bank of India, the Mercantile Bank, Lloyds Bank, the National Bank of South Africa, and the Eastern Bank. Some of the other larger Asiatic banking institutions also, such as the Hongkong and Shanghai Corporation, the



Yokohama Specie Bank, the Sumitomo Bank, the International Banking Corporation, and the Bank of Taiwan, do some amount of Indian business. The total number of Exchange Banks doing business in India was 17 in 1935. Their aggregate capital and reserves amounted to £137 millions, while their deposits and cash balances in India were £57 millions and £9 millions respectively.

The Indian Joint-Stock Banks do their business with relatively small amounts of capital. Most of them are managed by Indians. There has been a considerable increase in their number in recent years, and the total amount of their business has also expanded a great deal. At present their business is mainly confined to the financing of the internal trade of the country; but it is to be hoped that they will extend their operations to foreign exchange, and thus take advantage of foreign capital. In 1935, only 38 banks had a paid-up capital and reserves of over Rs. 5 lakhs each. The aggregate paid-up capital and reserves of these banks amounted to Rs. 13·20 crores, the deposits to Rs. 84·45 crores, and cash balances to Rs. 19·12 crores.

The position of Indian Joint-Stock Banks was affected to a great extent by the amendment of the Indian Companies Act, which came into operation in January, 1937. The Act attempted to define banking, and to segregate banking from other commercial operations. It recognised the special status of the 'scheduled banks' and exempted them from certain measures of control imposed under this Act on other banks, on the ground that the scheduled banks might be left to the general supervision of the Reserve Bank. These provisions embody original features for which there is no exact parallel in other countries, but they appeared to be justified by the special nature of the conditions prevailing in India, and it was hoped that they would "lead to the development of scheduled banks working on modern and scientific lines."¹

The 'scheduled banks,' referred to above, are so called because of the fact that the Reserve Bank Act contains a schedule giving the names of the banks which are directed to maintain balances with the Reserve Bank. This schedule gave a list of 50 banks, and the Act empowered the Governor-General to

¹ *Second Annual Report of the Reserve Bank of India.*



include in the schedule any other bank having a paid-up capital and reserves of at least 5 lakhs of rupees in the aggregate. Any scheduled bank, the aggregate value of whose paid-up capital and reserves falls below 5 lakhs of rupees, would be excluded from the schedule. The number of scheduled banks rose from 50 to 54 during the year 1937-38. During the Second World War, the number of scheduled banks increased further. Thus the number rose from 63 in 1940-41 to 96 in 1946-47. Despite the disturbances that followed on the heels of the Partition in August, 1947, commercial banking presented, on the whole, an encouraging picture and even recorded further expansion. Thus the total number of scheduled banks came to 99 at the end of 1947.

Provisions
relating to
them.

Each scheduled bank is required by the Reserve Bank Act to maintain with the Reserve Bank a balance amounting to at least 5 per cent. of its demand liabilities, and 2 per cent. of its time liabilities (*i.e.*, fixed deposits) in India. It has to submit a weekly return to the Reserve Bank, giving a clear statement of its affairs in a prescribed manner. Failure to submit the weekly return entails the payment of a penalty of 100 rupees for each day during which the failure continues. Further, should the balances of a scheduled bank kept with the Reserve Bank fall below the prescribed minimum, a heavy fine is to be paid by it to the Reserve Bank in the form of penal interest on the amount of the deficiency.

Bank
failures.

These regulations were considered necessary in order to ensure the solvency of the scheduled banks, because a number of bank failures in the past had severely checked the growth of Indian banking. In 1935, there were 51 cases of bank failure in the whole of India.¹ In 1949, a number of banks failed in Bengal.

¹ During the last quarter of a century, the number of bank failures in the country was quite large. The crash came with the failure of the People's Bank in the Punjab, with its 72 branches in the different parts of the country and its crore and a quarter of deposits. Next failed the Credit Bank of India, and the Indian Specie Bank too—the only purely Indian Bank which had a branch in London—was unable to weather the storm. These were followed by thirteen other failures. Various causes contributed to bring about the crisis. The management of some of the banks was in the hands of men who had very little experience of this kind of business, and they often embarked on speculative ventures of a dangerous character. In some cases the banks had high-sounding titles,

It will, however, be a misfortune if these failures produce the effect of permanently hindering the growth of Indian banking. "Credit," as the American jurist-statesman, Daniel Webster, put it, "has done more, a thousand times, to enrich nations than all the mines of all the world"; and, in the words of the eminent economist, McLeod, "it is by the cautious and gradual extension of Banking, and the development of Banking habits among the people that the future progress of India in wealth and prosperity is to be promoted."¹

Necessity
for growth
of credit.

There has been a progressive increase in bank deposits during the last fifteen years, the temporary set-back in 1931 having been due to the economic depression. The total deposits of all Banks in India amounted to Rs. 274 crores in 1935. The respective shares in the total deposits in 1935 were: Reserve Bank of India, 13 per cent.; Imperial Bank of India, 28 per cent.; Exchange Banks, 27 per cent.; Indian Joint-Stock Banks, 32 per cent.

Progress of
banking.

Cash balances at the end of 1935 were 25 per cent. on the liabilities on deposits in the case of the Imperial Bank of India; 16 per cent. in the case of Exchange Banks. The percentage for Indian Joint-Stock Banks was 23 in the case of those having capital and reserve of Rs. 5 lakhs and over, and 16 in the case of those with smaller capital.

Proportion
of cash to
deposits.

The Government itself is also a great banker. It holds in deposit moneys from the people in its Post Offices and pays interest on them. The total amount of deposits in the Post Office Savings Bank was on 31st March, 1936, over 67 crores of rupees. No special balances are held by the Government against these deposits, they being regarded as part of the Unfounded Debt. The Government also advances loans to cultivators for agricultural improvements and the purchase of

The Govern-
ment itself
a great
banker.

but their paid-up capital was very small; they lent money on insufficient security; and the proportion of their cash reserves to their liabilities was exceedingly small. A further cause was the lack of support from well-established banks at a time of stress. The failure of the Alliance Bank of Simla, one of the greatest joint-stock banks in India, in 1923, was due to too large sums having been advanced to Messrs. Boulton Brothers of London, who had indulged in highly speculative ventures. The failures brought misery to large numbers of poor men and women; and future bankers will do well to learn from the experience of the past and avoid mistakes such as those which led to the crises in the past.

¹ H. D. McLeod, *Indian Currency*, p. 53.



land, cattle, etc. This is done on a large scale in times of famine and scarcity. The Co-operative Credit Societies are institutions similar in object, though not in scope and organisation, to the Agricultural Banks of Europe.

Banker's
business.

A banker utilises his capital and a considerable proportion of his deposits in making advances. Such advances are generally made either by means of an overdraft or a definite loan against security, personal or otherwise, or on a cash credit bond providing for a fluctuating balance within a certain definite amount. Besides, banks invest in the discounting of commercial bills and in loans to stockbrokers and others against Negotiable Securities. Loans made on mortgage or against securities form the chief business of the Indian Joint-Stock Banks. Loans against the personal credit of the borrower only, form one of the important classes of advances given by commercial banks in Western countries, but they are relatively unimportant in India. The reason for this difference in practice is to be found, according to the Indian Central Banking Enquiry Committee, in the following factors: a tradition established by the Presidency Banks, and later followed by the Imperial Bank, because of the restrictions imposed upon their operations; the absence of touch and the consequent lack of knowledge between borrowers and lenders in the principal money-market centres in India; the absence of the policy of 'one man, one bank' which obtains in Western countries; the prevalence of the managing agency system in India; and the absence of agencies for supplying information about the financial standing of borrowers.

Credit in-
struments.

The instruments of credit in India are governed by the Negotiable Instruments Act. A Negotiable Instrument means a promissory note, bill of exchange, or cheque. A promissory note is a written unconditional promise made by one person to pay another a certain sum of money. A bill of exchange is defined as an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money to, or to the order of, a certain person or to the bearer of the instrument. A cheque is a bill of exchange drawn on a banker and payable on demand. Negotiable instruments may be either inland or foreign. Those

drawn or made in India and made payable to, or drawn upon, any person resident therein, are called inland instruments; those not falling within this definition are foreign instruments. Besides these, some other instruments, passing from hand to hand by delivery, have by custom acquired a quasi-negotiable character.

The bank rate is the standard rate at which the Reserve Bank Bank rate. is prepared to buy or rediscount bills of exchange or other commercial paper eligible for purchase under the Reserve Bank Act. The annual averages of these rates for the years 1935 and 1936 were 3.46 per cent. and 3.00 per cent. respectively. At present the Reserve Bank of India rate is 3 per cent. The Imperial Bank *hundi* rate is $3\frac{1}{2}$ per cent. The bank rate varies from day to day and from month to month. During some months of the year the rate is very high in India—sometimes rising to over 8 per cent. Such high rate, however, prevails only for a short period, namely, the winter months, when the exporters need money for purchasing agricultural products. The bank rate in India does not exercise the same influence over the other rates in the money-market. The more important of these rates are the call money rate charged for very short-period loans, repayable at the option of either the lender or the borrower, the deposit rate charged by the joint-stock banks, and the bazaar rate charged by indigenous bankers for small traders' bills.

The Banking Companies Act, 1949, attempts to consolidate, Banking Companies Act, 1949. with certain modifications, the relevant provisions concerning banking companies contained in the Indian Companies Act, 1913, and the various subsequent measures. The Act regulates all banking companies and covers all the States of India. Co-operative banks have been excluded from the scope of the Act.

All banks coming within the perview of the Act are licensed. Licences are issued by the Reserve Bank after proper enquiry. The Act lays down minimum requirements relating to the paid-up capital and the reserves of a bank incorporated in India. Scheduled and non-scheduled banks are required to keep minimum reserves with the Reserve Bank (2 per cent. against time liabilities and 5 per cent. against demand liabilities). The Act prohibits inter-locking directorates among

banking companies and the employment of managing agents. It also prohibits the granting of unsecured loans or advances to any of the directors or to any firm in which the directors are interested.

The Reserve Bank has now the power to control not only the scheduled banks but also the non-scheduled banks and therefore the entire joint-stock banking system. It may give directions to banking companies in regard to their lending policies. It may caution or prohibit banking companies generally, or any banking company in particular, against entering into any particular transaction or class of transactions. It may inspect any bank either on its own initiative or on being directed to do so by the Government. The Reserve Bank's prior permission is required for the opening of new branches and the transfer of existing ones. The Reserve Bank has also been given some powers in respect of voluntary winding up and amalgamation of banking companies, and it may, on application for it, be appointed as the official liquidator.

The Reserve Bank is required to make an annual report to the Central Government on the trend and progress of banking in the country with suggestions, if any, for strengthening the banking business of the country.¹

¹ These problems will be discussed more fully in Part II of the book.

CHAPTER XII

CONSUMPTION

CONSUMPTION is the aim and object of production. We cannot think of the production of wealth without having in mind the end for which it is produced. The connection between production and consumption is thus very intimate. This intimate relation is also perceived in another way. Production is made possible only by consumption, on which, therefore, the quality and quantity of production must necessarily depend to a large extent. On the other hand, without production there can be no consumption.

Relation
between
consump-
tion and
produc-
tion.

Consumption of commodities is determined by the standard of life which a particular person fixes for himself at any given period of time, or rather which is fixed for him by his circumstances. This standard of life differs not only among individuals, but from class to class, and according to differences of occupation. In countries like England and the United States, these differences are very great; but so far as the elementary needs are concerned, the standard is very much the same for all classes. In India, on the other hand, considerable differences are found in regard to even the most elementary needs of life.

Standard
of living

varies in
degree,

The standard of living, again, differs not only in degree, but in kind. The consumption of some commodities, for instance, may give physical comfort, but may be detrimental to moral wellbeing. It would be taking a narrow view of Economics to confine the standard within the limits of physical needs. From our standpoint, it would be more desirable to take the term to include higher ends as well. We follow Marshall, who says: "Let us take the term, the 'Standard of Life' to mean the Standard of Activities and Wants. Thus an increase in the Standard of Life implies an increase of intelligence, energy, and self-respect; leading to more care and judgment in expenditure, and an avoidance of food and drink that gratify the appetite, but effect no strength, and of ways of living that are unwholesome, physically and morally."

and in
kind.

The most expensive standard not necessarily the best.

The Indian standard.

Wants and activities.

Classification of articles of consumption.

According to this view, the most expensive standard is not necessarily the highest, and India will not be any the better or happier for getting a larger amount of what many people wrongly term 'refinement'. To judge whether a standard is high or low, we have to enquire whether or not it conduces to the welfare, moral and material, of the persons who have adopted it. The best consumption of wealth is that which results in the greatest benefits to individuals and to society. It is often said that the customs, the social institutions, and the religious and moral ideas of the people of India favour a standard of living which is comparatively low.¹ This is true in a sense ; but it is not in itself a thing to be regretted. We must, however, distinguish between the standard of life which is the aim of religious teachings and moral precepts, and that which results from economic circumstances beyond the control of these teachings and precepts.

In recent years, many artificial wants have made themselves felt in India. It is often held that an increase of wants leads to an increase of activity. This, however, is true only of the first stages of civilisation. After a certain point, a multiplication of artificial wants is not conducive to the leading of a good life. Economics is based, it is true, on the satisfaction of wants, but that does not imply that man should go on creating wants so that he may have the pleasure of satisfying them. Certain wants present themselves to man, and they must be satisfied ; but ever-increasing wants and ever-increasing effort to satisfy such wants do not conduce to the well-being of society. The real test of civilisation is not the growth of wants, but the growth of healthy activities.

Economists divide articles of consumption into necessities and luxuries. Necessaries, again, are subdivided into necessities for existence and those for efficiency. There are, besides, certain articles which have come to be regarded as conventional necessities. Although there are no means by which each of these

¹ The Labour Commission in their *Report* dealing with the conception of a fixed standard relating to industrial workers challenge the view that when the worker has earned enough to maintain that standard, he ceases to make any further effort. "The evidence of unprejudiced observers regarding improvement in the general standard of living and the increase in the level of real wages show that the workers' earnings have risen, i.e., that the idea of any general fixed standard is fallacious. . . ."



classes can be rigidly marked off from the others, yet this classification is useful and convenient. It must be remembered, however, that articles which are necessities to some may be luxuries to others.

Reliable statistics of consumption in India are not available. The average consumption per head of the taxable commodities may be ascertained by dividing the total of such commodities by the number of the population.¹ But as these commodities are not always the most important, they do not throw much light on the economic condition of the people. Besides, a computation of the *per capita* consumption, however useful for comparison with other countries, would not give us any knowledge of the condition of the different sections of society in India. Figures relating to consumption in some towns and villages are sometimes given by the Government and some private agencies, but no systematic and thorough study of consumption on the lines of work of Charles Booth, Seebohm Rowntree and others has as yet been attempted in India.

Statistics
of con-
sumption.

In order that we may make progress towards a higher life, the physical needs—the primary wants, as they are called—must be satisfied first. The primary wants are those of food, clothing, and shelter. We have already seen that the average income in India is very small; consequently, a large majority of the people are hardly supplied with the barest necessities. Sir William Hunter observed many years ago that more than one-sixth of the people went through life on insufficient food. Sir Guy Fleetwood Wilson, at one time Finance Member of the Government of India, said: "A large proportion of the people are poor, an appreciable proportion very poor." As a matter of fact, a considerable proportion of the people are below what is known as the 'primary poverty' line, and large numbers of persons hardly get one full meal a day. It is doubtful if all persons belonging even to the 'middle class' get a sufficient quantity of nutritious diet.

The first
necessaries
of life:
Food.

Views of
eminent
officials,

¹ The following table gives an idea of the decrease in consumption of the two most essential commodities in recent years:

Consumption per head of the population.

	1939-40	1946-47	1947-48
Food consumption per head (in lbs.) ...	388	358	357
Cloth consumption per head (in yds.) ...	16	12	11

The Eastern Economist, December, 31, 1948.

Clothing.

Clothing is an item of less importance in India than in Europe and America. In summer, a very small amount of clothing suffices; but in winter, warm clothing of course becomes essential, especially in Northern India, where the cold is severe. But the poor people can rarely afford to supply themselves with warm clothing, and deaths from cold are often reported. The middle-class people perhaps spend more on their clothing than they ought to, for in order to find money for their clothes they have to curtail their expenditure in other and more useful directions. The richer classes can afford to indulge in a little luxury in the matter of dress, but they represent only a microscopic minority of the total population. As for house-room, the great bulk of the people live in mud huts with thatched roofs; and not even all members of the middle class succeed in finding accommodation which would be considered decent in the advanced countries of Europe and America.¹

House-room.

¹ The following table would serve to indicate the variations in the standards of life of working-class families at different centres in India:

All India Working Class Cost of Living.

August, 1939 = 100.

	Bombay	Kanpur	Madras	Calcutta	General Index
Years—					
1939-40	.. 103	105	106	100	100
1940-41	.. 107	111	109	106	105
1941-42	.. 118	123	114	115	115
1942-43	.. 150	181	136	144	146
1943-44	.. 219	306	180	291	247
1944-45	.. 226	314	207	279	250
1945-46	.. 224	308	228	283	253
1946-47	.. 246	328	239	275	261
1947-48	.. 265	378	227	309	292

The Eastern Economist, Annual Number, December, 1948, p. 1124.

Middle Class Cost of Living in Calcutta and other important places.

(Base: July, 31, 1939 = 100)

	Allahabad	Benares	Gorakhpur	Lucknow	Meerut	Calcutta
December, 1947	.. 409	375	355	446	416	323.9

Menial Class Cost of Living, Calcutta.

(Base: August, 1939 = 100)

	Food	Clothing	Fuel and light	House rent	Miscellaneous	All combined
December, 1947	.. 366.8	290.2	390.9	110.0	282.4	341.4

Monthly Statistical Digest, West Bengal (August-September, 1948).

The primary wants are necessities for existence. An insufficient supply of these may just enable a person to keep body and soul together, but is sure to be detrimental to his physical and moral welfare. The effect of inadequate consumption on production is immense. Ill-fed, ill-clad, ill-lodged, the mass of the people of India lead a dull and dreary existence. The want of proper sustenance impairs the vigour and vitality of the people, who fall easy victims to the attacks of various kinds of disease. Having no reserve to fall back upon in difficult times, they suffer untold misery whenever there is a slight disturbing cause, such as a drought or a failure of the crops. The children of weak and unhealthy parents become weaklings, and, being themselves ill-fed and ill-bred, swell the numbers of the worthless members of society. Thus the physical deterioration of the people goes on increasing from generation to generation; and with the progress of physical degeneration, their moral stamina also tends to become less and less strong. Consequently, the efficiency of labour as a factor in production has a progressively rapid tendency to diminish.¹

Effect of inadequate consumption on production.

The stinting of necessities is always economically wasteful²; and there can be little doubt that production in India can be

¹ The consumption of food per head per year of the population in India was estimated as follows (in lbs.):

1939-40	1940-41	1941-42	1945-46	1946-47	1947-48
388	366	348	340	358	357

A sample survey of International Standards in Lucknow city carried out by the Lucknow University, tends to show that there is considerable under-feeding in lower income groups, with an average consumption of between 2,161 and 2,295 calories per day per adult male; the middle and upper classes consume, on an average, about 2,800 calories.

People of the lowest income groups, earning Rs. 60 per month or less, have to spend as much as 81 per cent. of their earnings for the purchase of food articles alone. For the working class, lower middle class and upper middle class the corresponding figures are 70.9 per cent., 44.9 per cent. and 41.4 per cent. respectively.

Supplies of protective foods are very scarce in the open market. As against the average need of 10 ounces of milk per day, sub-subsistence earners, lower income group workers and the lower middle classes get only 1.4 oz., 2.5 oz., and 3.46 oz. respectively.

Quoted in the *Economic Weekly*, May 27, 1950.

² Discussing the subject of the consumption of drink, the Labour Commission in their *Report* observes that it is "a feature of the majority of industrial areas and has created considerable havoc in some of them". The reduction of drinking should not only effect improvements in the "health, efficiency, and standard of living of the workers", but will also

Increased consumption necessary, but only of wholesome articles.

greatly increased by increasing the consumption of the people. When, however, we advocate an increase in consumption, we mean increased consumption of those goods which conduce to the health and vigour of the people. In food, nutrition should be the main purpose, and the desire to prefer pleasant to wholesome food should be discouraged. Indulgence in drink and narcotics means not only the waste of money spent on them, but an injury to body and mind. In matters of dress, furniture and dwellings, the objects of attainment should be health, happiness, and morality—not luxury. Economically speaking, luxury is unproductive, and the demand for luxuries misdirects capital and labour, and leads to waste. In the words of a well-known economist, the consumption of luxuries, far from augmenting our capacity, makes us “at once less wealthy, less healthy, and less wise.”¹

The following tables give an idea of the cost of living of the working class during recent years:

TABLE A.

Base: August, 1939=100.

			1948-49	1949-50	April '50
BOMBAY STATE	..	{ Ahmedabad	.. 341	343	366
		{ Bombay	.. 297	291	292
		{ Sholapur	.. 415	406	412
WEST BENGAL	..	Calcutta	.. 345	349	333
UTTAR PRADESH					
(U.P.)	..	Kanpur	.. 498	460	420
MADRAS STATE	..	Madras	.. 320	330	327
MADHYA PRADESH	..	{ Nagpur	.. 379	374	367
		{ Jubbulpore	.. 151	150	150

increase, the *Report* points out, the taxable capacity of the people. The *Report* also notes that by ensuring for the worker better surroundings, less fatigue, and increased facilities for amusement and recreation, considerable reduction in the consumption of drink may be expected.

¹ Sidney Webb, Preface to R. Jones's *Nature and First Principles of Taxation*.



CONSUMPTION

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TABLE B.

Base : 1944=100.

			1948-49	1949-50	April '50
DELHI	..	Delhi ..	133	132	129
AJMER	..	Ajmer ..	161	163	167
BIHAR	..	Jharia	154	163	169
		Jamshedpur	137	138	134
ASSAM	..	Gauhati	124	126	122
ORISSA	..	Cuttack	136	153	159
WEST BENGAL	..	Kharagpur	136	136	136

Among the physical necessities proper housing comes next to food. In this respect also the existing conditions are deplorable.¹ But there are necessities of a higher kind which are

Necessaries
of a higher
kind:

¹ A sample survey of the essential features of a *bustee* life in Calcutta and Howrah was made by the Provincial Statistical Bureau under the instructions of the Land Revenue Department of the Government of West Bengal. The following observations contained in the Report are worth noticing:

"*Bustees* are an inevitable feature of the industrial areas of this country. They are as much a problem in Bengal as elsewhere. *Bustees* in Calcutta correspond to "*chawls*" in Bombay and "*ahatas*" in Kanpur. But whereas the factory labourers in Bombay and Kanpur (and also in Calcutta industrial areas) reside often in quarters with *pucca* roof, the *bustees* as understood in this Report are not buildings with *pucca* roof, nor are they exclusively lived in by the labour class. As a matter of fact, due to acute house shortage, a good number of middle class people has been found in the *bustees*."

The *bustees* are mainly a product of unplanned industrialisation and unplanned growth of cities in India. So far as Calcutta is concerned, the rapid industrialisation of the city is indicated by the increase in the number of factories in the recent decades. With increase in industrialisation there has been a corresponding growth of population. For decades people from the countryside have been pouring into the city of Calcutta where people from every part of our vast country may find easy employment. Bengal is a one-city province and that city is by far the most cosmopolitan city in the whole of India. This will be seen from the high proportion of non-Bengali speaking population in the city as found in the successive censuses. This is adequately reflected in the composition of the *bustee* dwellers also as will be seen in the sequel.

The already overcrowded city has become even more congested due to the sudden influx of more than a million refugees from East Bengal in course of the last eighteen months as a result of the Partition. A large number of these refugees found their way into the *bustees* and made the situation worse.

The pattern of life in the *bustee* is more or less the same everywhere throughout the country. The difference is in the details, not in the essentials. As a general picture we can do no better than quote the description given by the Royal Commission on Indian Labour, page 271:

education,
sanitation,
leisure,
recreation.

of as much importance as those we have been discussing, and the failure to provide for which is the main cause of the present backward condition of the country. These needs are for education, sanitation, leisure, and recreation. The economic value of education is too well known to be disputed. By increasing the intelligence of the labourer, education adds greatly to his productive efficiency. Sanitation is a question of vital importance, particularly in a country like India. Adequate rest after work is necessary in order to prepare the mind and body for further work. Recreation claims the attention of the economist as it exercises the greatest influence on happiness and morality. As a celebrated economist observes: "A people may be dulled because of too little, enervated because of too much, degraded because of ill-chosen amusement."¹

Consider-
able
increase
of income
needed.

In order to provide for the satisfaction of all these needs, a considerable amount of income is required. The present income of the bulk of the people, as is evident, is insufficient for an adequate supply of even the first necessities of life. When an augmentation of income commences, the increments will, in the initial stages, go to make up the deficiency on the score of the primary wants, and the later increments will be devoted to the satisfaction of the higher needs.

"... houses are built close together, each touching each and frequently back to back in order to make use of all the available space. Indeed space is so valuable that in place of streets and roads, narrow winding lanes provide the only approach to the houses. Neglect of sanitation is often evidenced by heaps of rotting garbage and pools of sewage, whilst the absence of latrines enhances the general pollution of air and soil. Houses, many without plinths, windows and adequate ventilation, usually consist of a single room, the only opening being a door often too low to enter without stooping. In order to secure some privacy old kerosene tins and gunny bags are used to form screens which further restrict the entrance of light and air. In dwellings such as these human beings are born, sleep and eat, live and die."

¹ Devas, *Groundwork of Economics*.



CHAPTER XIII

PUBLIC FINANCE

1. REVENUE

THE revenues of India are derived from various sources. Several methods may be adopted in classifying these sources. The most natural method would be to divide the State income into four parts: (i) the income derived from the possession of state property, *e.g.*, forests, (ii) the profits of commercial undertakings, *e.g.*, the railways, (iii) incidental gains from administrative departments, *e.g.*, the law-courts, and (iv) taxation proper. Another and simpler method would be to put the first of these three items in one class, and to divide the revenue into two parts, namely, non-tax-revenue and tax-revenue. No classification can be wholly logical; and it does not matter which one we adopt, provided it does not lead to a confusion of ideas.

Classification.

Tax-revenue and non-tax revenue. Revenue is the only purpose of tax-system.

Unlike the tax-systems of some other countries, the only object of the Indian system is the production of revenue. No attempt is made there to remove or modify, through its system of public finance, the inequalities that exist in the distribution of wealth among the different classes of society.

Principles of the distribution of taxation.

The Government of India, in framing their budget, do not professedly adhere to any of the current theories of the apportionment of taxation.¹ As a matter of fact, however, so far as the income-tax is concerned, they have definitely accepted the 'progressive' principle,² as we shall see presently.

¹ A 'tax' is defined by Professor Bastable as "a compulsory contribution of the wealth of a person or body of persons for the service of the public powers." Compare this idea of a tax with that of Kalidasa, the great Sanskrit poet, who says that the king receives taxes from the people with the sole object of benefiting them, just as the sun draws moisture from the earth in order to give it back a thousand-fold.

'Tax' defined.

² Although every student of Economics is supposed to be familiar with the different alternative principles of taxation that have been suggested by thinkers, yet it will not perhaps be out of place to say a few words about them here. The first and the simplest principle is that the amount of service rendered by the state should be the standard by which to regulate taxation. The principal objection to this theory is that it is not possible to distribute the advantages among individuals, and to charge in

The different theories of taxation.

The tax-system 'plural'.

It is evident that the tax-system of India is not unitary—that is to say, it does not consist of a single tax (on real property, land-rent, capital, income, or any other substance). It rather inclines to the opposite extreme, viz., the multiple tax-system.¹ 4. The taxes are collected from a fairly large variety of sources.

Direct and indirect.

The Indian tax-system consists of both 'direct' and 'indirect' 5 taxes. Land revenue and the assessed taxes are direct. Customs and excise duties are 'indirect'. Opium revenue partakes more

proportion. The second principle is that of equality of taxation. All are equally benefited by the state; why should not all pay equally for these advantages? This method of equal contributions per head would be impossible politically, besides being extremely unjust. Thirdly, we come to the widely accepted doctrine which takes 'faculty' or 'ability' as the measure for taxation. 'Ability', however, is a vague term, and a measure of 'ability' is needed. This measure may be property, or gross income, or net income. A slight variant of the 'faculty' theory is the 'sacrifice' theory. 'Ability' is objective; 'sacrifice' is subjective. Either of these theories may lead us to two forms of distribution: (1) proportional taxation, in which income is taken as the standard, and the amount of public burdens proportioned to it; and (2) progressive or graduated taxation, which places a heavier rate of charge on large than on small incomes, because the ability of the tax-payer increases in a more rapid ratio than the increase of his income. The chief merit of the proportional system is its simplicity. It was the accepted doctrine of classical political economy, but progressive taxation has now been adopted in most countries of the civilised world. The chief objections urged against the latter system are its arbitrary nature, the danger of its evasion, the probability of its harmful effect on the accumulation of wealth, and the relative unproductiveness of the progressive tax. On the other hand, it is held that progressive taxation is more equitable than proportional taxation. One extreme form of the 'progressive principle' would be to substitute 'least sacrifice' for 'equal sacrifice'. Another extreme would be 'greatest sacrifice', which would lead to socialistic equality. There may be several modifications of the proportional principle, and one of these would be 'degressive' taxation, a system in which a uniform rate of tax is levied beyond a prescribed limit (*Vide* Bastable, *Public Finance*, and Seligman, *Progressive Taxation*).

¹ The merits of the 'single tax' system are that the method is simple, the cost of collection is small, and the incidence on the several individuals and classes is precisely known. Among the many defects of the system may be pointed out the following: Its pressure may be extremely heavy at a particular point; it may be easily evaded; there is no possible room for correction in case there be any error or miscalculation; it may really prove very complex and troublesome; there is the risk of exciting discontent by raising the required sum in a single payment. The chief advantages of multiple taxation are that it bears lightly on an infinite number of points, heavily on none, and has a tendency to bring about equality in the burden falling on the people. But the system is open to several objections, namely, that its incidence is not easily ascertained, that it is prejudicial to the development of industry, that it is irksome and inconvenient to the payers, and that it is very costly in collection. The system which finds most favour in modern countries is 'plural taxation', which combines, to some extent, the merits of the two opposed systems.



of the character of profit from commercial transactions than of a tax. It must be remembered in this connection that a hard-and-fast line of distinction cannot be drawn between 'direct' and 'indirect' taxes.¹ There are some taxes which stand on the borderland between the two classes, for instance, registration fees and stamp duties.

Before we pass on to a somewhat detailed account of the various sources of revenue, it would be desirable to state here the generally-accepted attributes of a sound system of taxation, so that we may be able to judge how far they are accepted by the Indian Government in their financial system. They are as follows: (1) The revenue-system must be adequate to the just needs of a progressive state; (2) taxation should be productive, for otherwise its very object would be defeated; (3) the state should take as little as possible from the people, consistently with the maintenance of its efficiency; ² in other words, the total disutility should be at a minimum; (4) taxation should be inexpensive in collection; (5) taxation should not check men's

Attributes
of a sound
system of
taxation.

¹ A tax is said to be 'direct' when the burden of the tax falls on the person who pays it. It is said to be 'indirect' when the burden falls on some person other than the person who pays it in the first instance. The great recommendation of 'direct' taxation is its educative influence on the minds of the people. Each citizen knows exactly how much he contributes to the income of the state. If at any time the Government becomes tyrannical or unmindful of the interests of the people, he can refuse to pay taxes; and when an undue burden is put on him, he may resist. Besides, there is the greater facility and lower cost of collection. The drawbacks are: (1) the disagreeable nature of a direct demand and the discontent which an increase of taxation is likely to give rise to; (2) the difficulty of assessment; (3) its inducement to concealment and evasion; (4) the difficulty of obtaining a due proportion from the poorer members of society; and (5) its comparative inelasticity. The advantages of 'indirect' taxes are that (1) they are not often felt by the payer, and therefore cause him less annoyance; (2) they supply a facility for taxing the smaller contributors; (3) they are productive, and, in times of prosperity, they are elastic without causing undue pressure; and (4) they are collected at a time convenient to the payer. The disadvantages are the facilities which they offer for smuggling, the probability of a shrinkage in bad years, the possibility of their falling on the poor more heavily than on the rich, the greater expense of collection, and their possible harmful effect in disturbing the course of industry. The proper system of taxation seems to be that in which there is a judicious combination of 'direct' and 'indirect' taxes.

² This was the old theory, when taxation was regarded as a necessary evil. Some of the modern economists, e.g., Sidney Webb, incline towards the opposite view, holding that the state should take as much from individuals as possible, in order to confer a maximum of benefit on society as a whole.



desire to save, and should retard as little as possible the increase of wealth; (6) it should be justly distributed, so that the burden may be equal on all citizens, or, in other words, the marginal disutility for each tax-payer should be at a minimum; (7) it should be certain; (8) it should be elastic; (9) the objects taxed and the periods of payment should be such as suit the convenience of the people and cause as little vexation and opposition as possible; and (10) the tax-system should be adjusted as far as possible to the habits and ideas of the people.¹

Taxes in India fall into three classes, namely, Central, State, and Local, according to the category of administration to which they belong. The Government of the Indian Union, the State Governments, and the local bodies have separate resources, but there is not always a clear-cut distinction between the sources of revenue.

Chief
sources of
central
revenue.

✓ The introduction of the Montagu-Chelmsford Reforms in 1920-21 led to a complete revision of the system of public finance in India. The budget of the Central Government was separated from the budgets of the Provincial Governments. Provincial sources of revenue were completely differentiated from central sources, and provincial expenditure was made entirely distinct from central expenditure. Further changes were made by the Government of India Act, 1935. The chief sources of revenue of the Government of the Indian Union at present are:

Republican India

(1) customs, including the central excises; (2) taxes on income, other than on agricultural incomes; (3) opium; (4) railway receipts; (5) receipts from other central departments, such as posts and telegraphs, civil and military departments, and currency and mint; (6) interest on moneys lent. It is clear that the first three of these heads fall wholly into the class of tax-revenue, and the others either wholly or partly into that of non-tax-revenue.

Customs :

Until very recently, customs formed the largest source of revenue of the Central Government. Customs revenue dates

¹ A corollary that is often deduced from these maxims is that the prime necessities of life should not be taxed. Some economists would also add to the list another attribute, viz., that no tax should be levied, the character and extent of which offer, as human nature is at present constituted, a greater inducement to the tax-payer to evade than to pay. (*Vide D. A. Wells, Principles of Taxation*).



from the early days of the East India Company. But its yield was not large during the Company's rule. In 1857-58, the income from this source amounted to only a crore of rupees. Even after the assumption of the administration by the British Crown, the growth of customs revenue was very slow for a long time. It was during and after the First World War that there were sharp successive rises in the yield of customs. Till the commencement of this war, the Indian tariff was based on the orthodox free trade principles. The customs duties were levied solely for fiscal purposes, and were not protective or preferential in their nature. They were not intended to benefit one class of industry at the expense of another. The financial exigencies of the war, however, introduced considerable changes into the fiscal arrangements of the country. In spite of an avowed free trade policy, the tariff rates were raised several times till at last the duties on cotton piece-goods, sugar, iron and steel manufactures, paper and pasteboard, dyes and paints, and some other articles became moderately protective in character. The customs tariff then acquired an importance which it had never possessed before. Import and export duties, which had produced only 14 per cent. of the central revenue during the years, 1909-10 to 1913-14, yielded more than 33 per cent. in 1924-25.

1 world war
successive rises

Purpose
solely
fiscal.

Indirectly
protective.

33% of total
in '24-25

The Indian Fiscal Commission of 1922 recommended the adoption by India of a policy of discriminating protection. Though halting and unsatisfactory in many respects, this Report may be said to mark the beginning of a new tariff policy in India.

Discriminating
protection. - 1922 -
change of tariff
policy.

During the decade preceding the Second World War the customs tariff consisted of a long list of articles. Some articles were imported free of duty. General import duties were levied, *ad valorem*, on a large number of commodities. Certain articles of luxury were taxed at very high rates. In addition, protective duties were levied in some cases. Preferential duties, at less than the standard rates, were levied in a few instances. Specific duties were levied on a comparatively small number of articles. On a few articles, both specific and *ad valorem* duties were imposed. General surcharges were sometimes levied as an addition to the import duties. The net revenue contributed by import duties amounted in 1936-37 to a little more than 35 crores.

Free
imports.

General
and special
import
duties.

'36-'37
= 35 crores.

There were a few articles which were liable to an export duty.



Export
duties.

The net yield of export duties was about 5 crores in 1936-37, which was about 10 per cent. of the total customs revenue. Of the net proceeds of the jute export duty, 62½ per cent. was transferred to the Governments of jute-growing provinces.

Excise
duties, on
production
new articles

In the early thirties, excise duties, i.e., consumption taxes levied on local production, were imposed by the Government of India on the production of a number of articles. The main object of the levy of these duties was to recoup the financial losses suffered by the Government by reason of the substantial fall in the revenue derived from the import duties. Excise duties were imposed on sugar for the first time in 1934. These rates were increased in 1937. On motor-spirit, an excise duty was levied in 1929 for the first time. A portion of the receipts from the excise duty on motor-spirit was transferred to the provinces for the purposes of road development. Matches were subjected to excise duty in 1934. The receipts from the excise duties were as follows in 1936-37: motor-spirit, Rs. 5 crores 57 lakhs; kerosene, Rs. 3 crores 2 lakhs; silver, Rs. 5 lakhs; sugar, Rs. 2 crores 53 lakhs; matches, Rs. 2 crores 39 lakhs; and steel ingots, Rs. 34 lakhs.

Cotton
excise.

It is interesting in this connection to note that, from 1896 an excise duty of 3½ per cent., *ad valorem*, used to be levied on cotton goods and yarn produced by Indian mills, with the object of countervailing the almost negligible protective effect of the import duty on those articles. This duty was suspended in December 1925, and abolished in March, 1926. The total yield of this duty was nearly 6 crores in 1924-25.

Changes in
excise duty.

The period of the Second World War witnessed a number of changes in the central excise. Owing to the exigencies of war, the duties were generally revised in the upward direction, as a result of which the income from this source increased from Rs. 8.66 crores in 1938-39 to Rs. 46.36 crores in 1945-46. Even after Partition the excise duty continued to be a prolific source of revenue to the exchequer of the Indian Union. The revised estimates in the budget of 1948-49 placed the yield from excise duties at Rs. 50.25 crores. This expansion of yield was due to a general increase in the rates of excise duties on matches, vegetable products, tea, coffee, etc., and to the imposition of an excise duty of 25 per cent. on ex-factory prices of cigarettes.

46.36 crores
1945-46

50.25 crs.
1948-49



The expected yield from excise duties in the budget estimates of 1949-50 was Rs. 69.27 crores, and in the budget for 1950-51 it is estimated at Rs. 71.55 crores. (in revised - 69.68 crores, estimated budget for 1951-52 Rs. 71.55)

The increase in the expected yield of excise duties in the budget estimates of 1949-50 was due to the raising of the duty on sugar from Rs. 3 to Rs. 3-12 as. per cwt., on tyres for motor vehicles from 15 per cent. to 30 per cent. *ad valorem*. Another notable fact was the revival of the cotton excise duty. A duty of 6½ per cent., *ad valorem*, on fine cloth and of a quarter of an anna per yard on coarse and medium cloth was imposed in addition to 25 per cent. *ad valorem* duty on superfine cloth imposed in January, 1949. The cotton excise duty was to be confined to mill-made cloth only, handloom production being exempted. The Finance Minister expected from this source an increased yield of Rs. 9 crores. In view of the long and bitter history behind the cotton excise duty and of the unpleasant memories the revival of this much criticised duty was likely to rake up, the Finance Minister, Dr. Matthai, sought to justify this decision elaborately. He argued that the circumstances in which the duty was being revived were entirely different from those in which a foreign government used it in the interests of foreign industry. The heavy loss in revenue caused by the abolition of the salt duty was to be replaced by some other equally stable and productive source of revenue and cloth being an article of large internal production and of universal consumption was an obvious choice for a tax on consumption. He further contended that the duty would not handicap the home production in competing with imported cloth, because the price of imported cloth, high in itself, had been further enhanced by the high import duty. Further, he added, the duty would help the handloom industry in retaining the market by raising the price of the mill-made cloth. Dr. Matthai also argued that the incidence of the cotton excise duty on the middle and lower middle classes using medium and coarse cloth would be negligible.

The continuance and further enhancement of the excise duties were further defended by Dr. Matthai, the Finance Minister, on the ground that it was the only source which he could tap with advantage. He was of the opinion that at the existing level of taxation there was hardly any scope for raising revenue

The case for excise duty.

from direct taxes, while any increase of import duties, which were already very high, was unlikely to be accompanied by any substantial increase of revenue. Export duties, he further argued, could not be enhanced without jeopardising India's balance of payments position. Customs, therefore, in his opinion, did not offer much hope for raising additional revenue, and central excise was expected to be a more fruitful source.

Case
against
excise duty.

The main objection to the Finance Minister's proposal is that, in spite of the undoubted merit of elasticity possessed by the excise duties, the fact cannot be ignored that they are in general regressive in their incidence. It is, therefore, difficult to justify the imposition of excise duties on the bare necessities of life, which hit the poorer classes very hard. Another objection to these duties is that their tendency to raise prices militates against the imperative need of checking inflation. Thus the Finance Minister's special pleadings betrayed a lack of sympathy with the sufferings of the masses and caused much discontent. Towards the close of the financial year 1949-50, the Government of India, by an executive order, reduced the excise duty on superfine cotton piece-goods from 25 to 20 per cent. and on fine piece-goods from $6\frac{1}{4}$ to 5 per cent.

Character
of customs
revenue.

(Customs revenue is generally elastic ; it tends to expand with the expansion of trade and industry. As for the incidence of customs duties, those on matches and kerosene fall on almost the entire community, but more heavily on the poorest than on the other classes. The cotton duty is paid by the bulk of the population, more particularly the middle and well-to-do classes. The tax on refined sugar, stationery, and paper affects mainly the middle class ; while the heavy duties on motor cars, silk manufactures, cigars and cigarettes, and jewellery fall on the richer classes who are best able to bear the burden. The high duties on iron and steel, while they press upon important industries and means of communication, have the beneficial effect of safeguarding an industry of vital national importance. The duty on liquor tends to check, however slightly, the consumption of a deleterious article.

Import-
ance of
customs.

The net receipts from customs duties amounted to Rs. 53½ crores in 1936-37. The customs revenue, at this time, amounted,



roughly speaking, to over one-half of the net revenue of the Central Government.¹

The predominance of customs as the largest single source of revenue was well maintained during the inter-war period. It shrank enormously during the Second World War with the diminution of foreign trade due to the outbreak of hostilities. The customs revenue which stood at Rs. 40.51 crores in 1938-39 came down to Rs. 25.12 crores in 1942-43 and to Rs. 26.20 crores in 1943-44. The buoyancy of our customs is evident from the fact that in the post-war period it is again showing unmistakable signs of revival. The yield from the customs in the revised budget of India in 1948-49 was Rs. 117.25 crores which exceeded the revenue obtained from this source by undivided India in any pre-war year. Partition resulted in some reduction of revenue from customs. The revenue from export duty on raw jute fell considerably. All these are factors which would adversely affect our customs revenue. On the other hand, as the Indian Union is likely to carry on an extensive overland trade with Pakistan, the yield from land customs is likely to increase. The policy of India to reduce the imports drastically, specially from the dollar areas, in order to narrow the dollar-gap, is also a factor tending to reduce the customs revenue. Further, there is an international factor which is also likely to diminish our yield from customs. The ^{General} Geneva Agreement on Tariffs and Trade, which is intended to increase multi-lateral world trade, may bring about over-all reductions in tariffs and thus diminish the revenue from customs.

During
World
War II.

2 1951-52 -
(estimated)
Post-war
period.

In the budget estimates for 1949-50, as presented by Dr. Matthai, the customs revenue was placed at Rs. 111.47 crores. In the budget estimates for 1950-51, it has been placed at Rs. 106.54 crores. - *for 1951-52 Rs. 111.47 crores 232 cr.*

- revision in
Rs. 111.47

The Taxation Enquiry Committee examined the question whether the increase in customs involved the shifting of the burden from one class to another. On an analysis of the figures

Incidence
of tariff.

¹ It is interesting to note that, during the trade depression, the revenue from customs did not decline to any considerable extent in India, as the result of imposing a surcharge of 25 per cent. on all taxes in 1931. This relative stability of the customs revenue in India was in marked contrast to the experience of other agricultural and raw-material producing countries during the depression. (*World Economic Survey, 1933-34*, pp. 226-230).



of customs revenue from 1913-14 to 1924-25, the Committee arrived at the following conclusion: "So far as the figures go, they tend to indicate a certain amount of shifting of the burden from the richer classes to the general population".¹ Recently, there has been a change in the trend of duties. Luxury goods are being heavily taxed, while imports of the necessities of life are admitted free of duty or at low rates. The idea is to shift the burden from the poorer to the richer sections of the community.

Income-tax.

1860-65.

1869-73.

1886.

Changes in 1916-17.

Super-tax in 1917.

Further changes.

Income-tax Act of 1922.

Until recently, income-tax formed the second important source of revenue of the Central Government, but it is now replacing customs as the most important source. It is the most equitable of all taxes, as it is based on the principle of ability to pay. An income-tax was for the first time introduced in India in 1860 to meet the financial stringency caused by the Mutiny of 1857-58. It was levied at the rate of 2 per cent. on incomes between Rs. 200 and Rs. 500, and at the rate of 4 per cent. on all incomes above Rs. 500. This tax expired in 1865. It was re-introduced in 1869, and lasted for four years. The income-tax found a permanent place on the statute-book in 1886. On this occasion, it was levied on incomes derived from sources other than agriculture which was exempted. On incomes of Rs. 2,000 and upwards it fell at the rate of 5 pies in the rupee; on incomes between Rs. 500 and Rs. 2,000 at the rate of 4 pies in the rupee. In 1903, the taxable minimum was raised to Rs. 1,000. In 1916-17, as one of the measures needed to finance the war, the rates of income-tax were completely revised and largely increased; and the progressive principle was definitely adopted. Another feature of war taxation in India was the imposition of the super-tax in 1917. This was levied in addition to the ordinary income-tax on large incomes above Rs. 50,000.

Further changes were made in 1922, when the law relating to the income-tax was placed on a more satisfactory basis. The Income-Tax Act of 1922 was a purely administrative measure which regulated the basis, the methods, and the machinery of assessment, but did not contain any provision relating to the

¹ Report of the Taxation Enquiry Committee, para 145.



rates of taxation. The rates were, however, increased in that year; these increased rates remained unchanged till 1930.

There were various increases in the rates of income-tax, including the imposition of surcharges, between 1930 and 1934, 1930-34. owing to deficits in the budget. In 1935-36 surcharges on the income-tax and on the super-tax were reduced as the result of an improvement in the financial position, and in 1936-37 incomes 1936-37. between Rs. 1,000 and Rs. 2,000 per annum were made free of income-tax.

The Taxation Enquiry Committee had referred to the various defects of the Indian income-tax system and pointed out the difficulty that might arise in applying the principle of graduation in income-tax under the step system, according to which the whole income of a person was taxed at a rate appropriate to that level of income. It might lead to the anomalous position that a person in a higher income bracket after paying the income-tax at a higher rate on his entire income might be worse off than a person in a lower income bracket who had paid income-tax at a lower rate. An Income-tax Enquiry Committee was appointed in 1936 for making recommendations as to the best method for re-organizing the Indian Income-tax System. The Committee made important recommendations with a view to improving the administration of the tax. It recommended the substitution of the "slab" system for the "step" system in regard to ordinary income-tax. For purposes of assessment, the Committee recommended that the incomes of husband and wife should be assessed jointly and the word "income", for taxation purposes, should refer to world income and not necessarily, to income arising in British India. The basis of assessment, according to the Committee, should be "accrual" and not the actual receipt of income. The main recommendations of the Committee were incorporated in the Income-tax (Amendment) Act of 1939, which introduced important changes in the Indian income-tax system. 1939

The rates of income-tax, super-tax and corporation tax as they stood in 1938-39 were as follows:

The rates of income-tax rose by gradual steps from 9 pies in the rupee on incomes between Rs. 2,000 and Rs. 5,000 per annum to a maximum of 2 as. 6 pies in the rupee on incomes



above Rs. 15,000 per annum. Companies and registered firms were taxed at the maximum rate. The rates of super-tax rose from one anna in the rupee on the first 10,000 rupees of the excess over Rs. 25,000 to a maximum rate of seven annas in the rupees. Super-tax on the companies, known as the corporation tax, was levied at the uniform rate of one anna in the rupee.

The outbreak of hostilities brought about a number of swift changes which gave a definite turn to the Indian tax structure with its traditional emphasis on indirect taxes in the direction of progressiveness. Apart from the levy of the Excess Profits Tax in 1940, the exigencies of a global war brought about a number of sharp increases in the rates of income-tax. In the Finance Act of 1942, the income-tax exemption limit was lowered to Rs. 1,500, but the new assesseees under the lower exemption limit could avoid liability by depositing about $1\frac{1}{4}$ times the amount of tax assessed in the Post Office Defence Savings. A central surcharge on incomes exceeding Rs. 2,000 raised the rate on the whole from $33\frac{1}{3}\%$ to a minimum of 50%. But there was a provision that in the case of incomes between Rs. 2,000 and Rs. 6,000 a portion of the tax equal to $\frac{1}{2}\%$ of the assessee's total income would be refunded after the war. This part of the scheme came very near to the plan of compulsory savings advocated by some modern economists. The Corporation Tax was increased to $1\frac{1}{2}$ annas in the rupee. In 1943, the Corporation Tax was further enhanced to 2 annas in the rupee, a uniform increase of $\frac{1}{2}$ anna in the rupee was made in respect of surcharge on Super Tax on slabs of income between Rs. 25,000 and Rs. $3\frac{1}{2}$ lakhs, the rates of central surcharge on incomes exceeding Rs. 5,000 were raised so as to impose a surcharge amounting uniformly to $66\frac{2}{3}\%$ over the basic rates, and the income-tax exemption limit was restored to Rs. 2,000. In 1944, incomes over Rs. 10,000, in the surcharge on Super-tax on increases were made in the Central surcharge on income-tax on incomes over Rs. 10,000, in the surcharge on Super-tax on incomes exceeding Rs. 35,000 and in the Corporation Tax which was raised to 3 annas, subject to a rebate of one anna on undistributed profits. Measures for advance payments of income-tax were also resorted to. In 1945, an increase in surcharge on income-tax on slabs of income above Rs. 15,000 and on incomes

Changes
during the
Second
World
War.

{ Income Tax
Super Tax
Corp. Tax
C.P.T.

taxable at the maximum rate was effected. This increase in surcharge was accompanied with a scheme of relief in respect of the earned income. Thus the differentiation between earned income and unearned income, which is a feature of the taxation system in the most advanced countries, was introduced in the Indian Tax System.

In the first post-war budget presented by Sir Archibald Rowlands, a number of substantial concessions was offered to industry and moderate income groups. The most spectacular reliefs were the withdrawal of the Excess Profits Tax, and a net reduction of $1\frac{1}{4}$ annas in the total of Super-tax and Income-tax payable by companies. Rates of income-tax were slightly reduced on certain slabs of income, the earned income allowance was raised from $1/10$ th to $1/5$ th of the earned incomes, subject to a maximum of Rs. 4,000, and differential treatment was also made in favour of earned incomes at the super-tax range at the rate of 1 anna in the rupee for incomes between Rs. 25,000 and Rs. 2 lakhs, and of half that rate for incomes between Rs. 2 lakhs and Rs. 5 lakhs. In 1947, Mr. Liaquat Ali Khan, Finance Member in the Interim Government, made a number of changes. The minimum exemption limit was raised from Rs. 2,000 to Rs. 2,500. As the abolition of the Excess Profits Tax, in his opinion, was premature in view of the abnormal conditions, a Business Profits Tax at 25 per cent. on profits exceeding 1 lakh was proposed; the rate of tax finally passed was $16\frac{2}{3}$ per cent. A Capital Gains Tax, on the U.S.A. model, was introduced on a graduated scale in respect of capital gains in excess of Rs. 15,000. This was defended on the ground of its being a tax on unearned income. The rate of Corporation Tax was doubled and steep progression in the scale of Super-tax was introduced, the rate being $10\frac{1}{2}$ annas in the rupee at 1.2 lakhs for unearned incomes and Rs. 1.5 lakhs for earned incomes.

Although approved by the Legislative Assembly, Liaquat Ali Khan's budget of 1947-48 was received with a chorus of protest by the business community. In response to their insistent demand for relief in taxation, the next budget presented by Mr. Shanmukhum Chetty, in 1948, introduced certain changes in the tax-system. The rate of Business Profits Tax was reduced

from 16 $\frac{2}{3}$ rd per cent. to 10 per cent. and the abatement allowed was raised from Rs. 1 lakh to Rs. 2 lakhs. The limit at which the maximum rate of Super-tax of 10 $\frac{1}{2}$ annas was to be applied was raised to Rs. 3 $\frac{1}{2}$ lakhs in respect of both earned and unearned incomes. This change was calculated to promote saving and investment. The basic rate of Income-tax on companies remained unaltered at 5 annas in the rupee, but the rate was reduced to 2 $\frac{1}{2}$ annas in respect of companies having an income of Rs. 25,000 and below. This was likely to encourage the growth of small concerns. The basic rate of 5 annas in the rupee on companies with an income exceeding Rs. 25,000 per annum was reduced to the rate of 4 annas in the rupee in respect of undistributed profits; and a rebate of $\frac{1}{2}$ anna in the rupee was allowed in respect of undistributed profits of smaller companies with an income not exceeding Rs. 25,000. This concession was obviously intended to encourage the ploughing back of profits into business. The Corporation Tax (i.e., Super-tax on incomes of companies) was raised from 2 annas to 3 annas in the rupee, but a rebate of one anna was allowed to the companies which would declare and distribute their profits in India. This 'discrimination in favour of Indian companies' was intended to prevent leakage of Indian tax-revenue. The exemption limit was raised from Rs. 2,500 to Rs. 3,000, because of the high prices prevailing in the country.

1949.

The lead given by Mr. Chetty in the matter of giving tax-relief was followed up by Dr. John Matthai in his budget proposals for 1949-50. The Capital Gains Tax was abolished on the ground that, while the yield from this source was negligible, the psychological effect on investment had been markedly adverse hindering, as it did, free movement of stocks and shares. In order to give relief to tax-payers in the lower and medium income-brackets, the rate of tax on personal incomes up to Rs. 10,000 was reduced by a quarter of an anna, with regard to Super-tax, some concessions were made, the rate of tax on earned incomes above Rs. 1 $\frac{1}{2}$ lakhs was reduced by 1 $\frac{1}{2}$ annas, bearing the maximum rate, income-tax and super-tax taken together, at 14 annas. The maximum rate of super-tax on unearned incomes was reduced by $\frac{1}{2}$ anna to 10 annas. This was intended to provide some incentive to saving and investment; it also corrected



an anomalous situation under which no differentiation between earned and unearned incomes was made in incomes exceeding Rs. 1½ lakhs. In view of the prevailing high prices, depreciation allowances to industries were further liberalised, in order to enable them to renew their capital assets.

The Budget for 1950-51 abolished the Business Profits Tax, 1950. as with the present reduced levels of profit this tax was considered to be bearing harshly upon industrial concerns. The rate of Income-tax payable by the companies was reduced from 5 annas to 4 annas, but the company Super-tax was raised by half an anna. In order to give some relief to the middle class, the rate of tax applicable to the slab of personal incomes between Rs. 10,000 and Rs. 15,000 was reduced from 3½ annas to 3 annas. The exemption limit was raised to Rs. 3,000 to give relief to the lower income groups. In the case of undivided Hindu families, the exemption limit was raised from Rs. 5,000 to Rs. 6,000. In order to stimulate saving and investment the rate of tax on the slab of income in excess of Rs. 15,000 was reduced from 5 annas to 4 annas. The distinction between earned and unearned incomes in the field of personal Super-tax was abolished and the maximum rate of Super-tax was fixed at the uniform rate of 8½ annas.

The revenue derived from the taxes on income increased enormously after the First World War. During the period 1899-1913, the annual yield was only Rs. 1.95 crores, which increased to 10.70 crores in 1919-20.¹ There was a great jump forward in the yield in the years 1921 to 1923, after which slight decreases in the yield took place. The net receipts from the income-tax in 1936-37 were Rs. 15 crores 37 lakhs.

It may be observed that the increased revenue from the taxes on income since the First World War was due to the introduction of Super-tax and the principle of progression in taxation as well as to tightening of the Income-tax machinery. The two successive world wars transformed the simple machinery of the Indian Income-tax system into a complicated instrument. During the Second World War the yield from the taxes on

Yield of
Income-
tax.

Yield of
taxes on
income.

¹ An Excess Profits Duty was levied in 1919-20 on all incomes made by companies or individuals above the normal standard. This duty yielded a sum of Rs. 11½ crores. It was allowed to lapse in the following year.

incomes increased by leaps and bounds. The yield of the Income-tax rose from Rs. 15·24 crores in 1938-39 to Rs. 107·02 crores in 1944-45. The yield of the Corporation Tax similarly rose from Rs. 2·04 crores in 1938-39 to Rs. 84·22 crores in 1944-45. The spectacular rise in the yield of Income-tax and Super-tax was largely due to the enhancing of the rates of taxation, but it was also partly due to the growth in money incomes of the community brought about by the phenomenal increase in the war expenditure of the Government. After the cessation of hostilities the yield of the taxes on income showed a slight diminution. The actual accounts for 1948-49 showed the revenue from taxes on income as Rs. 139·97 crores and estimates in the budget for 1949-50 placed the income-tax revenue at Rs. 107·85 crores ; the revised estimates placed the income-tax receipts at Rs. 113·26 crores. The budget estimates for 1950-51 provide for the receipts under taxes on income at Rs. 127·42 crores, this increase over the revised estimates of 1949-50 being due possibly to inclusion of a large sum on account of revenue from former Indian States, increased revenue as a result of the work of the Income-tax Investigation Commission, as also larger collections of arrears.

Nature of
Indian
Income-tax.

As already stated, the Income-tax has now come to occupy its rightful place in the Indian tax structure. One peculiar feature about the Indian Income-tax system is that agricultural income is exempted from payment of this tax—a fact which hinders uniform treatment of incomes from all sources. But so far as agricultural incomes have been made a provincial source of revenue, it has been a great advantage to the provinces.

The Indian Income-tax system has been modernised and brought into line with the income-tax systems of other advanced countries. The system today is steeply progressive and seems to be more progressive than in many advanced Western countries. It is argued that such a high level of taxation has driven wealth underground. The Income-tax Investigation Commission, which was appointed to trace war-time tax-dodgers, estimated the wealth that had evaded income-tax to be about Rs. 1,000 crores. The problem of checking tax evasion is one of the most difficult problems facing the country.

The Indian Income-tax system has also adopted the principle of differentiating between the earned income and unearned



incomes, with discriminatory rates in favour of earned incomes. But one serious omission in the system is that the exemption limit here, unlike in many other countries, bears no relation to the cost of subsistence. In the Indian system there is no provision for allowances in respect of wife, children and dependents. The system, therefore, does not attempt to adjust the tax liability to the individual's tax-paying capacity within the same income bracket and in this respect it is unscientific. The Taxation Enquiry Committee of 1924¹ argued in favour of retaining the *status quo* on the ground of administrative difficulties in the peculiar circumstances of the country where registration of births, marriages and deaths was far from universal. But in order to distribute equitably the burden of income-tax it is of the utmost importance that the circumstances of a person should be taken into account in estimating his assessable income; administrative difficulties cannot be regarded as insuperable.

An Excess Profits duty of 50 per cent. was first imposed in India in 1919 on all excessive profits due to the war above the normal, but it had a very brief life, it being allowed to lapse in the following year. During the Second World War an Excess Profits Tax was imposed in 1940 at the rate of 50 per cent. In 1941, the rate was raised to 66 $\frac{2}{3}$ per cent, of which 1/10th was refundable at the end of the war. In May, 1943, an Ordinance was promulgated enforcing a compulsory refundable deposit of 20 per cent. of the Excess Profits Tax payable. In 1944, the Excess Profits Tax compulsory deposit was increased to 19/64th of the tax provisionally fixed and was made payable at the time of the provisional assessment. The Excess Profits Tax was withdrawn in 1946. As we have already noticed, it was revived in 1947 by Mr. Liaquat Ali Khan under the name of the Business Profits Tax, but in a much milder form. In 1948, Mr. Chetty reduced the rate and raised the exemption limit. In Mr. Liaquat Ali Khan's Budget presented in 1947, the Business Profits Tax was accompanied by a Capital Gains Tax. But the Capital Gains Tax was abolished by Dr. Matthai in his budget for 1949-50. The Business Profits Tax has been abolished in the budget for 1950-51.

Excess
Profits
Tax.

¹ Report of the Taxation Enquiry Committee, para 24.



Yield and
nature of
Excess
Profits Tax.

✓

The Excess Profits Tax yielded a handsome revenue. On this account the companies yielded Rs. 22.40 crores in 1942-43, Rs. 39.86 crores in 1943-44, Rs. 67.44 crores in 1944-45 and Rs. 68.33 crores in 1945-46; and the individual income under this head amounted to Rs. 3.60 crores in 1942-43, Rs. 13.71 crores in 1943-44, Rs. 24.67 crores in 1944-45, and Rs. 11.13 crores in 1945-46.¹ Excess Profits are regarded as wind-falls and a tax on them is an ideal form of wind-fall taxation. But some economists have objected to it on the ground that war inflates not merely business profits but also many other kinds of income, and therefore it is inequitable to single out business profits for this kind of special levy. Besides, a high rate of Excess Profits Tax encourages extravagance in the shape of increased wages, etc., just to evade the tax. But whatever may be said, on academic grounds, against this tax, it has been a potent source of war finance. In England, for instance, there was a 100 per cent. Excess Profits Tax, subject to a refund of 20 per cent. at the end of the war.

Salt.

The salt tax was always regarded by the Government as a fiscal reserve to fall back upon in case of financial stringency.² The revenue could be increased without any material addition to the cost. For a long time the salt tax held a place second only to the land revenue. The successive reductions in the duty in 1903, 1905, and 1907 resulted in substantially lightening the burden which it imposed on the people. From 1908 to 1916 the tax was levied at Re. 1 per maund. In 1916 it was raised to Rs. 1-4 as. In 1923-24, it was raised to Rs. 2-8 as. in the teeth of popular opposition and by the exercise by the Governor-General of the special powers vested in him. In 1924-25, however, in deference to public opinion, the rate was reduced to Rs. 1-4 as. per maund. This rate continued till the abolition of the tax, but a surcharge at the rate of 25 per cent. on this rate was in operation from 1931.

Rate of
duty.

The question of granting protection to the Indian Salt Industry was investigated by a Tariff Board, and, on their recommen-

¹ *Eastern Economist*, March 4, 1949.

² The production of salt is not a Government monopoly, but private manufacture was prohibited owing to the difficulty of preventing an evasion of the tax.



dation, an additional import duty at the rate of $4\frac{1}{2}$ annas per maund was imposed in 1931. Seven-eighths of the receipts from this additional duty were handed over to the provinces in which the imported salt was consumed, the object being to encourage the local salt industry. This object was realised in the rest of India, but not in Bengal, the largest consumer of imported salt. The rates of the additional duty were subsequently reduced, and the additional duty itself expired in 1938.

Protective
duty on
salt.

The salt duty produced 8·8 crores in 1936-37. Salt is a vital necessity to the people, and the tax was persistently objected to by popular representatives. But the Government continued to levy it on the ground that it was the only contribution which the masses of the people made to the revenues of the state. Though much might be said in justification of the salt duty on the ground of its being an old tax and of its very low incidence, as also its revenue-producing capacity, it was highly unpopular. Mahatma Gandhi and the Congress party were committed to its abolition, and the first fiscal measure of reform undertaken after the attainment of independence was the abolition of the salt tax.

The production of opium is a Government monopoly in Opium.
British India. Poppy cultivation is permitted only in parts of Bihar and the United Provinces, and is under the control of the Government.¹ Opium grown in the Indian states, known as 'Malwa opium', is permitted to enter British territory only on payment of a heavy duty. By agreement with the Chinese Government, as well as under certain international conventions, the Government of India were obliged to reduce the production and export of opium. The revenue from opium, which was at one time a very important item in the financial resources of the Government, dwindled down to Rs. 1·08 crores in 1948-49.

Of the income derived from sources other than taxation, that from railways formed at one time by far the largest proportion.

Revenue
from rail-
ways.

¹ The cultivator has to get a licence, and is required to deliver the whole of his out-turn of the crude opium to the Government at a fixed price. The excise opium, that is, the small quantity required for consumption in India, is made over to the Excise Department, and a fixed amount per seer is credited to opium revenue. The rest, known as provision opium, is sold by auction, and is intended for export. The exports to China, the principal market for opium, have now ceased altogether.

The net railway receipts amounted to 32.70 crores in 1936-37. In 1925-26, the railway budget was separated from the general budget. It was arranged that out of the net profits a sum of Rs. 5.09 crores was to be annually contributed to the general revenues. From the balance the sum of Rs. 3 crores was to be transferred to the railway reserve. Further, one-third of the surplus left after the transfer to the reserve was to accrue to the general revenues. In 1924-25, the total contribution of the railways to the general revenues was Rs. 5½ crores, and till 1931, the total contribution was Rs. 42 crores.

After this, for a long time, railways made no contribution to the general revenue as during the Great Depression railways themselves were running at a loss. The Wedgwood Committee recommended, in 1937, that the contributions made by railways to the general exchequer might as well be abolished. But, in the meantime, things began to look up, and in 1938-39 railways made a contribution of Rs. 1.37 crores to the general revenue. During the Second World War railway earnings increased greatly, due mainly to enormous expansion in the volume of traffic caused by war operations, but also due to increase in fares. The contribution rose to Rs. 20.17 crores in 1941-42 and to Rs. 37.64 crores in 1943-44.

During the post-war period the railway budget for some time did not show much surplus and therefore the railway contribution also declined. But railways have begun again to earn surpluses and in the budget for 1948-49 the railway contribution to general revenue was estimated at Rs. 7.31 crores. In the budget for 1950-51, it has been placed at Rs. 6.37 crores.

Posts and
Telegraphs.

Posts and telegraphs used for a long time to be a source of considerable profit to the Government. The revenue from this source rose from Rs. 0.19 crores in 1938-39 to Rs. 11.31 crores in 1945-46. This increased yield was due mainly to the increase in postal and telegraph rates. After the end of the War the yield showed a gradual decline. In 1948-49 it amounted to Rs. 2.36 crores. Postal rates were enhanced in 1949. In the revised budget for 1949-50, the contribution was estimated at Rs. 3.77 crores. This increase in the postal and telegraph rates added to the burden of taxation borne by the poor people. In the budget for 1950-51, a slight decrease in rates has been made. The rate for

local letters has been fixed at one anna and that for local post-cards at six pies. In regard to charges on telegrams a reduction of one anna in the basic minimum charge has been made for ordinary telegrams and two annas for express telegrams. The contribution from this source has been placed at Rs. 4.48 crores in the budget estimates for 1950-51.

Under the Indian law of succession the taking out of succession certificates is compulsory only for certain races and for people professing certain religions. The bulk of the people have not to apply for probates or letters of administration or succession certificates. Under the law, when a man has got to apply for succession certificates, etc., court fees are levied, and this levy exceeds so much the cost of providing the service that it clearly contains an element of taxation. This levy has been described, more or less appropriately, as a sort of death duty. But as already stated, the vast majority of the people are not required to pay this duty and, therefore, the death duty in India is not universal, but is obviously discriminatory in character. The question of the imposition of a general death duty in this country has been under consideration for some time past.

The theoretical case for the imposition of a death duty in India has been admitted. As inheritance is in the nature of a windfall, it enhances the taxable capacity of the inheritor. Death duty is a direct tax, and as such admirably lends itself to the application of the principle of progression. It may be used as an instrument for correcting inequalities in the distribution of wealth. It will prevent the accumulation of enormous hereditary wealth, which tends to perpetuate parasitism and inefficiency. The argument that it will diminish savings has now lost much of its force, if it has not been entirely discredited by the doctrines of Keynes. ✓ Death duty is a very important source of revenue for every modern state. India can hardly dispense with this productive source of revenue, specially in view of her pressing needs for funds to push on with numerous schemes of national well-being which are being held up for lack of financial resources.

But there are certain practical difficulties in the way. The Constitution of 1935 permitted succession duty, but not estate



Practical
difficulties.

duty. In view, however, of the plurality of heirs recognized by the system of inheritance among the Hindus and the Mahomedans, and the minute fractions into which shares of individuals may run, a succession duty, as distinguished from an estate duty, was rendered impracticable. The necessary constitutional power, therefore, for imposing estate duty was secured by an amendment of the Government of India Act, 1935. The proposed Estate Duty Bill was to apply to non-agricultural property. The tax was to be administered by the Centre, but the proceeds were to be distributed among the provinces on the origin basis or on some other agreed principle. But unless the Provincial Governments were to follow up by imposing a similar duty on agricultural property, there would be serious inequality of tax burden as between different classes of rentiers. If the provinces did not follow any uniform practice, there was the risk of inter-provincial diversion of property. Another difficulty was likely to arise when the property of an individual would cut across provincial boundaries. There might also arise the possibility of double taxation when a person's property lay in one province and he resided in another.

Dayabhaga
and
Mitakshara.

A further difficulty is likely to be presented by the different systems of inheritance, viz., the Dayabhaga and the Mitakshara. So far as the Dayabhaga School, which governs inheritance in Bengal, is concerned there will be no difficulty, because there is succession to the whole property on the death of the testator. But under the Mitakshara system, a son becomes a co-sharer with his father from the moment of his birth and, therefore, there is no question of succession to the whole property. Only the father's self-acquired share, which may be a mere fraction of the entire property, passes to the sons. But these difficulties are not insuperable. It is, therefore, desirable that the Government of India should proceed, in collaboration with the State Governments, to prepare legislative measures for the early imposition of death duties.

According to official calculations, as given in the Statistical Abstract of India, the incidence of taxation per head of the population was Rs. 2-11-3 as. (3s. 7-3d.) per year about two decades ago. If land revenue were excluded, the burden would be Rs. 1-7-8 as. (1s. 11-8d.). The proportion of taxation to the average

income was officially estimated at nearly 9 per cent. It is not known by what process of calculation these figures were obtained. As a matter of fact, it is impossible to ascertain the burden of taxation with any approximation to accuracy until we know the amount of national income and the distribution of the national income among the different classes of Indian society.

Burden of taxation.

Whatever might have been the incidence of taxation years ago, it can hardly be denied that the present level of taxation is very high. The old theory that 'taxation is a necessary evil' is inapplicable in the modern states. But whether, and to what extent, the theory, namely, 'taxation is a necessary good' is applicable, depends in any country on the objects on which the proceeds of taxation are spent. Heavy taxation can be justified in India if it can be proved that it helps the promotion of the physical, mental, moral and economic well-being of the people and does not prove an unconscionable burden on them.

Incidence high

2. EXPENDITURE

In Public Expenditure the basic principle should be public advantage. Expenditure should be so apportioned between the different heads that the public may derive the maximum utility from each. In preparing his annual budget, the Finance Minister usually attempts to balance the two sides, and, if possible, to secure a surplus. He should have in view the well-known canons of expenditure as well as those of taxation.

Basic principle in expenditure.

The principal heads of expenditure are the following: Direct Demands on Revenue, Debt Services, Civil Administration, Civil Works, Defence Services, and Miscellaneous.

Principal heads.

Direct Demands on the Revenue represent the cost of collection. This is, of course, an absolutely necessary item of expenditure. The expenditure under this head amounted to about Rs. 427 lakhs in 1937-38. In 1948-49, this item of expenditure amounted to Rs. 9.88 crores. There seems to be considerable room for the practice of economy in this respect.

Direct demands.

Expenditure on Debt Services amounted in 1937-38 to Rs. 12 crores 56 lakhs, made up of the interest on ordinary debt, interest on other obligations, and appropriations for reduction or avoidance of debt. Expenditure on debt services in 1948-49 amounted to Rs. 39.91 crores.

Debt services.



Defence
expenditure.

History.

Military expenditure in India has for a long time past been the subject of adverse comment. During the eleven years, 1913-14 to 1924-25, the net military expenditure nearly doubled itself. The huge military expenditure was always regarded by Indian statesmen as an exceedingly heavy burden on the people; but the Government seemed to view it as necessary. It was the British portion of the army¹ that accounted for the greater part of the expenditure, and if a part of it could be replaced by Indian soldiers, there would be an appreciable relief to the Indian Exchequer. The cost of a British officer was 3 to 4 times as great as that of an Indian officer. The cost of a British soldier was nearly four times as great as that of an Indian soldier.² The Retrenchment Committee of 1922-23 recommended that defence expenditure should be brought down to Rs. 50 crores as soon as possible, and to a lower figure if there was to be a fall in prices. This was an exceedingly cautious suggestion. Gradual reductions in military expenditure were made after 1924, but these economies were arrested in 1928 on the ground that it was necessary to modernise the equipment of the army. The economic crisis, however, compelled a temporary reduction in military expenditure to about Rs. 46 crores, and a heavy fall in prices made this possible.

On the recommendation of the majority of the Capitation Tribunal, an annual contribution of £1½ million was made from the year 1933 by the British Exchequer in lieu of the expenses incurred by India for training the British troops. This contribution, however, did not go far enough, as was pointed out by the Indian members of the Tribunal. A substantial increase in defence expenditure occurred in 1938, owing principally to the increase in the pay of British officers, as a consequence of

¹ Sir George White, Commander-in-Chief of India, said on one occasion: "We maintain that the Indian army does supply a great addition of military power to England, that a part of the British army is trained at the expense of India, and that the whole of the men passed into the reserve has been maintained out of the Indian revenues." It was argued that, if a part of the Indian forces were really intended to safeguard the interests of England in Asia outside India, England ought to bear the cost of maintenance. India fought the wars of England in the past both with her blood and her treasure, and she had the right to expect equitable treatment from England in return.

² Vide *Report of the Indian Retrenchment Committee, 1922-23*, Appendices A, C, and D.



similar increases in England. Another factor which accounted for the increase was the addition made to the equipment of the naval and air forces.

The defence expenditure in India imposed an exceedingly heavy burden on the people of the country, and the public demanded that it should be substantially reduced. Three important steps were suggested for this purpose. First, the cost of the British portion of the army should be borne by the British Exchequer.¹ This surely was not an unreasonable demand. Secondly, it was urged that British officers should be replaced by Indian officers in the Indian portion of the army. The third suggestion was that the strictest economy should be observed both in recurring and in capital expenditure in all the departments of the army. The net expenditure on defence services amounted to about Rs. 45½ crores in 1936-37.

Heavy
burden.

1936-37.

Military expenditure underwent very large expansion during the Second World War, but even after the establishment of peace no substantial reduction was made. In 1948-49, the net expenditure on defence services amounted to Rs. 146.04 crores and the capital outlay was Rs. 132.68 crores. In the budget for 1950-51, the net military expenditure from revenue has been estimated at Rs. 168.01 crores and the capital outlay at Rs. 2.15 crores; in other words, the military expenditure for the year is over 50 per cent. of the total expenditure of the Government of the Indian Union.

1948-49.

1950-51.

1951-52

Rs. 180.02
(estimated)

The present level of defence expenditure puts an unduly heavy strain on Indian economy. While India spends about 50 per cent of her actual budget on defence expenditure, the U.S.A. spends 25 per cent., the U.S.S.R., 17 per cent., and the

¹ It had the support of the minority members of the Welby Commission. So great an authority at Lord Salisbury had observed in 1896: 'Millions of pounds have been spent in increasing the army in India, not to provide for the security of India against domestic enemies or to prevent incursions of the warlike peoples of the adjoining countries, but to maintain the supremacy of the British power in the East. The scope of these great and costly measures reaches far beyond India's limits and the policy that dictates them is imperial policy.' More recently, the Esher Committee remarked: 'We cannot consider the administration of the army in India otherwise than as a part of the total army forces of the Empire,' and added: 'the novel political machinery created by the peace treaty has enhanced the importance of the army in India relative to the military forces in other parts of the Empire and more particularly to those of the British Isles.'



U.K., 13 per cent. It is true that many factors have contributed to this heavy cost of Indian defence, *viz.*, modernising and re-equipping the defence services, guarding a precarious and extensive frontier, arising out of the partition of the country, etc. Whatever justification there might have been for heavy defence charges during the last four years, India cannot continue to bear such a heavy burden in future. In any case defence expenditure should not go seriously out of proportion to our revenues, in view of the precarious food position, immediate necessity of undertaking large beneficial projects, and the imperative need of cutting down governmental expenditure for the purpose of properly tackling the question of inflation. Therefore, the strictest economy should be observed both in recurring and in capital expenditure in all the departments of defence. The League of Nations once recommended that the military expenditure of a nation should not exceed 20 per cent of its revenue. This is a quite sound view, and if it is accepted, India's defence expenditure would be considerably less.

Need for
retrench-
ment.

Civil Ad-
ministration.

The next head is that of Civil Administration. The expenditure amounted to over Rs. 11 crores in 1935-36. During the Second World War, the civil expenditure of the Government of India increased about five times. Many factors operated together in order to inflate the expenditure to such a high level. In order to cope with the situation generated by the war, many new departments, such as food, supply, etc., had to be created. In place of one department under Railways, Posts and Telegraphs, two departments, *viz.*, Transport and Communications, were set up. The administrative paraphernalia of the then existing departments was also expanded. The prices of the goods which the Government departments had to purchase were much higher. Even after the war, the expenditure did not show any signs of diminution. The partition of the country created a new situation. A new department, under the name of Relief and Rehabilitation, was set up to cope with the problem of refugees who migrated from Pakistan to India on a mass scale. The change in the status of India from one of subjection to foreign rule to one of independence necessitated an increase in expenditure. The External Affairs department began to devour a large share of the revenue of the Government. In spite,

Great
increase.



however, of these demands upon the Government revenue there is a great scope for economy. The Government appointed an Economy Committee which made certain recommendations for bringing about substantial reduction in expenditure, but the expenditure continued to rise. Before the war the expenditure on account of Civil Administration amounted, on an average, to Rs. 11 crores a year. During the war period the expenditure rose year by year to a very high figure. In 1948-49, it amounted to Rs. 35.56 crores, but in the budget for 1950-51, it has been estimated at Rs. 50.05 crores. Drastic steps must be taken to reduce expenditure under this head.

Scope for economy.

in 1951-52
Rs. 56.6
(est.)

Under the head 'Irrigation' the expenditure from revenue, in addition to capital expenditure, amounted to Rs. 5.68 lakhs in 1948-49. In the budget for 1950-51, it has been estimated at Rs. 22.99 lakhs. In 1951-52 - Rs. 27 lakhs.

Irrigation.

Under the head 'Currency and Mint', Rs. 2.12 crores was provided in 1948-49 and in the budget for 1950-51, Rs. 1.7 crores has been estimated. In 1951-52 - Rs. 2.66 crores.

Currency and Mint.

The expenditure on Civil Works and Miscellaneous Public Improvements amounted to Rs. 6.61 crores in 1948-49, while the estimated expenditure for 1950-51 is Rs. 9.97 crores. for 1951-52 (estimated) - Rs. 13.3

Civil Works.

In pre-war days, the Miscellaneous Charges included Territorial and Political Pensions, Superannuation Allowances and Pensions, Stationery and Printing etc. Recently, due to changes of various kinds, these items have lost their importance to some extent. At the present time, this head includes expenditure on refugees, subsidy on foodgrains, pre-partition payments and some other items of expenditure. Miscellaneous expenditure was Rs. 56.89 crores in 1948-49 and the estimated expenditure for 1950-51 is Rs. 38.69 crores.

Miscellaneous charges.

Contributions to, and Miscellaneous Adjustments between, the Union and State governments, amounted to Rs. 2.95 crores in 1948-49, and Rs. 15.41 crores has been provided in the budget for 1950-51. 1951-52 - Rs. 15.43 crores.

Adjustment between Centre and States. Extraordinary items.

The expenditure on extraordinary items was Rs. 19.45 crores in 1948-49, but a sum of Rs. 3.43 crores has been estimated in the budget for 1950-51. - 1951-52 - Rs. 10.97 crores

The Government of India had formerly to spend a large sum of money every year on what was generally known as the



'Home
charges'

"Home Charges". This item referred to expenditure incurred in England on account of India, and included Railway debt, Interest on ordinary debt paid in Britain, Management of debt, Stores for India, Military and Marine services, India Office and High Commissioner's Office expenses, Furlough and Pensions, etc. The entire foreign debt of the Government of India was repatriated during the War out of the sterling balances which were accumulated in London. The annual expenditure of the Government in connection with Furlough and Pensions also has recently been capitalised. As a result the Government of India is not required to spend any money in connection with the Home Charges every year at the present time.

3. FINANCE DURING THE WAR

1940-41 to
1942-43.

During the initial stages of the war the finances of the Central Government, paradoxically enough, showed substantial surplus. In 1939-40, there was an actual surplus of Rs. 7·8 crores. Up to 1942-43, the course of central budgeting ran fairly smooth and the gigantic problems of war finance did not make their appearance. Expenditure, of course, was rising from year to year. It grew from Rs. 94·57 crores in 1939-40 to Rs. 114·18 crores in 1940-41 and Rs. 147·26 crores in 1941-42. But the revenues also were expanding, due partly to new taxation, partly to upgrading of old tax rates, partly to increased activity arising out of war, and partly to an increase in the income of certain classes caused by the war expenditure of the Government. It was, therefore, possible to finance expenditure during those years out of revenue to the extent of 94·3 per cent in 1940-41 and 91·4 per cent in 1941-42. As a result, India's public debt did not show any large increase. It rose from Rs. 1,203·86 crores in 1939-40 to Rs. 1,247·67 crores in 1940-41 and then declined to Rs. 1,209·21 crores in 1941-42.¹

From the strictly budgetary point of view the years, 1939-40 to 1941-42, were not very anxious years for the Finance Member. But, meantime, a disturbing factor was discernible in the situation. It was becoming increasingly clear that, whatever budgetary policy might be pursued, it would not be possible to

¹ *Eastern Economist*, March 4, 1949.

offset the inflationary impact of this disturbing factor on national economy as the source of disturbance was outside the jurisdiction of the Central Government expenditure. Recoverable war expenditure on H. M. G. account, which stood at the modest sum of Rs. 4 crores in 1939-40, rose to Rs. 53 crores in the 1940-41 and to Rs. 194 crores in 1941-42. It should also be noticed that the total note-issue which stood at Rs. 252·21 crores in March, 1941, swelled to Rs. 421·06 crores in 1942. Evidently, the inflationary gap had already begun.

The first phase of the war, so far as Indian finances were concerned, may be said to have ended in 1941-42. It was during the second phase of the war-time public finance—the period from 1942-43 to 1945-46—that the budgetary policy was dominated by the question of how to exploit most effectively both taxation and borrowing for the purpose of financing the mounting Central Government expenditure, particularly expenditure entailed by the vastly expanded scale of operations of a global war and by India's increasing participation, both directly as a country at war, and indirectly as the base of supplies for the Allied Nations. Expenditure increased over three times between 1941-42 and 1945-46 from Rs. 147·26 crores to Rs. 484·57 crores, and about six times from 1939. Defence expenditure rose from Rs. 49·54 crores in 1939-40 to Rs. 103·93 crores in 1941-42, and to Rs. 458·32 crores in the peak year of 1944-45. It declined slightly to Rs. 395·32 crores in 1945-46. The percentage share of defence expenditure of the total expenditure rose from 52·4 in 1939-40 to 70·6 in 1941-42, and reached the high-water mark of 81·1 in 1943-44, after which it came down to 74·3 in 1945-46. The total tax-revenue which was Rs. 76·35 crores in 1938-39 and Rs. 79·66 crores in 1940-41 rose progressively to Rs. 103·26 crores in 1941-42, to Rs. 280·06 crores in 1944-45 and to Rs. 311·36 crores in 1945-46. In other words, the tax-revenue more than quadrupled itself during the war years. This increase in tax-revenue was no mean performance, but in the race with expenditure it was obviously losing ground. From 1942-43 onwards the percentage of expenditure met out of revenue dwindled rapidly. There followed, therefore, a series of progressively increasing budget deficits. A deficit of Rs. 6·55

Defence Ex-
penditure
in 1941-42,
1943-44 and
1945-46.

Increase in
tax revenue
and expend-
iture.



crores in 1940-41 and of Rs. 12.69 crores in 1941-42, took a jump upward, rising in 1942-43 to Rs. 112.17 crores and to Rs. 189.78 crores in 1943-44. It then declined gradually to Rs. 161.14 crores in 1944-45 and to Rs. 123.90 crores in 1945-46.

Methods adopted for financing war expenditure.

Taxation, borrowing and a resort to the printing press were the three methods employed by the belligerent countries for collecting funds required for financing the war. By rationing and rigid price control expenditure on private consumption was vigorously kept down to the minimum level. Private investment was also controlled by the Governments, capital issues being allowed only for approved purposes. Avenues of private expenditure being thus more or less closed, the Governments resorted to taxation to the utmost extent possible to mop up the additional funds accumulated in the hands of the people through the huge war expenditures of the Governments. Borrowing was also employed for absorbing any surplus purchasing power left in the hands of the public, while a cheap money policy was pursued to keep down the cost of borrowing. A country-wide campaign for small savings was carried on in order to freeze the increased income in the hands of the wage-earners. This was, in brief, the technique employed by Germany, the United States and the United Kingdom to finance the last war. India followed the same technique, but in a crude and unintelligent manner.

Additional taxation.

Enhancement of excise duties.

Increase in postal telegraph, telephone rates, railway fares and freights.

As the scope of direct taxation was rapidly exhausted, indirect taxation was resorted to in India. The yield of customs shrank with the shrinkage of world trade, and increasing reliance was placed upon the central excises. New excise duties were imposed on tobacco and *vanaspati* in 1943-44, and on tea, coffee and betel-nuts in 1944-45. The exigencies of war finance also led to an all-round increase in the rates of the already existing excise duties; and the railway fares and freights as well as postal, telegraph and telephone rates were also enhanced.

In spite of strenuous efforts made by the Finance Member the revenue tended to lag behind expenditure and borrowing was resorted to. Thus by combining borrowing with taxation it was possible for the Government to meet its expenditure, huge as it was.

But, while the technique adopted by the Governments of the United States and the United Kingdom was successful from the larger economic point of view, the same technique resulted in a dismal failure in India. The inflationary forces were held in severe check in those countries, but in India inflation grew from more to still more and inflicted immense suffering on the people, one of its most mischievous consequences being the disastrous Bengal famine. Among the other defects of this policy may be mentioned the fact that indirect taxation was levied indiscriminately without the compensating feature of giving subsidies to essential articles as in Britain. Indirect taxes in India had the effect of raising prices and thus enhancing the persistent inflationary pressure.

Conse-
quences in
India.

4. POST-WAR CENTRAL BUDGETS

The first peace-time budget was presented by Sir Archibald Rowlands in March, 1946. With the cessation of the war, the feeling that the burden of taxation levied during the war was too heavy for the country to bear and that the high level of taxation was destroying the incentive to saving and investment, began to find expression in the Press. The budget for 1946-47, therefore, in response to this growing public sentiment, made substantial concessions to industry and moderate income groups. The Excess Profits Tax, which had been imposed in 1940, was withdrawn and there was granted a net reduction of $1\frac{1}{4}$ annas in the total of super-tax and income-tax payable by companies. As a result of these tax reliefs, the revised estimates for 1946-47 left uncovered a deficit of Rs. 45.29 crores on the revenue account, revenue being Rs. 336.19 crores and expenditure, Rs. 381.48. If the receipts and expenditure on the capital account were included, the total deficit would be Rs. 80 crores. Sir Archibald was perhaps a little too hasty in his policy of giving tax reliefs and probably it would have been better if he had exercised greater moderation in carrying out that policy. But it can hardly be denied that Sir Archibald's budget showed an intelligent awareness of the limits which direct taxation had reached in the country.

Rowlands's
budget, 1946

Mr. Liaquat Ali Khan, who was the Finance Minister in the Interim Central Government, in presenting his budget in

Liaquat Ali's
budget, 1947.



March, 1947, imposed the Business Profits Tax and the Capital Gains Tax, doubled the rate of Corporation Tax, and introduced a steep progression in the scale of super-tax. With all this large imposition of additional direct taxation, the estimates placed the deficit at Rs. 16.96 crores. In the capital budget there was a substantial deficit to the tune of Rs. 133.41 crores, chiefly because the Government loan programme could not be carried out. Mr. Liaquat Ali's taxation measures were described as wholly unwarranted, upsetting as it did the stimulating effect of the previous budget. His budget was characterised as mischievous for it undermined the confidence of the business community, while it had not the fiscal justification of balancing receipts and expenditure.

✓
S. Chetty's
budget, 1948.

Next year, when Mr. Shanmukham Chetty presented his budget for 1948-49, the chief problem for him was how to restore confidence to the capital market which had received a rude shock as a result of the various taxation measures introduced by his predecessor. He, therefore, introduced a number of changes in the field of direct taxation which were calculated to give an incentive to saving and investment. The deficit in the budget estimates for 1948-49 was placed at Rs. 2.14 crores, but the deficit in the revised budget was found to be even smaller, viz., Rs. 1.55 crores. This small deficit, which occurred in spite of the appearance of two unforeseen factors, namely, the military operations in Kashmir and the relief and rehabilitation of refugees, would have been of no consequence, but the capital section of the revised estimates of 1948-49 showed a large expenditure.¹ The little effort made in the revenue budget to moderate the inflationary bias was nullified by the unbalance in the capital budget.

✓
Matthai's
first budget,
1949.

In framing the budget estimates for 1949-50 the Finance Minister, Dr. John Matthai, had principally two objects in view. On the one hand, he aimed at keeping the inflationary forces under check, and on the other, he wished to devise measures for the revival of confidence in the investment market. On the existing level of taxation, the estimated revenue was Rs. 307.74 crores, whereas the expenditure charged to revenue

¹ *Eastern Economist*, March 4, 1949.



was Rs. 322.53 crores. In the context of the inflationary conditions in the country, the Finance Minister did not think it advisable to leave the deficit uncovered.

This, evidently, would necessitate the imposition of new taxes. But, at the same time, in order to create a situation favourable for saving and investment, he considered some relief in direct taxation urgently necessary. Therefore, he granted a number of reliefs in the field of direct taxation, and to cover the increased gap he relied mainly upon central excises, the rates of many of which were revised in the upward direction and fresh impositions were made, the most noteworthy of which was the cotton excise duty. This revision of the taxation measures was expected not merely to wipe out the deficit but also to leave the Finance Minister with a small surplus. The net position in the budget estimates for 1949-50 may be summed up thus: Final estimated revenue, Rs. 323.02 crores; estimated expenditure, Rs. 322.53 crores. Therefore, the budget estimates showed a surplus of Rs. 49 lakhs. This meagre surplus, on the revenue account, must be set off against the uncovered deficit of Rs. 134.1 crores on the capital account.¹ The total budget estimates of 1949-50, therefore, were unbalanced to the extent of Rs. 133.61 crores.

We have examined above the *pros* and *cons* of the various taxation measures undertaken by the Finance Minister. It may further be pointed out that the budget estimates of 1949-50 did hardly make any contribution to the fight against inflation; even the minimum requisite of budgetary equilibrium was not really achieved, if we take into account both sections of the budget. Further, the Finance Minister's argument that the excise duties would mop up excess purchasing power in the hands of a section of the public and thus would check inflation, was most unconvincing. As has been rightly pointed out, "it is paradoxical to maintain that such type of curtailment of consumption is a fight against inflation. To fight inflation by increasing prices is indeed self-contradictory."² The various concessions granted in tax-relief failed to

¹ *Eastern Economist*, March 4, 1949.

² "Studies in War Economics", p. 91. (Oxford University Institute of Statistics).

stimulate the investment market. Expectations of profits by businessmen were keyed to such a high pitch that the concessions failed to satisfy them. Besides, in the inflationary context, the mere holding of goods for a rise in price in the near future was such a profitable enterprise that there was a natural tendency for funds to shift away from long-term investment to short-term investment for profiteering. Thus it would seem that the measures of the budget for 1949-50 failed to promote either of the objectives it intended to achieve.

The revised estimates for 1949-50, showed a total revenue of Rs. 332.36 crores and a total expenditure of Rs. 336.1 crores, thus converting the token surplus of 49 lakhs into a deficit of Rs. 3.7 crores. Both receipts and expenditure went up; on the revenue side, receipts under customs showed a very large improvement; on the expenditure side, defence services accounted largely for the rise in expenditure.

✓
Matthai's
second
budget, 1950.

In presenting the budget for 1950-51, the Finance Minister, Dr. John Matthai, at the very outset pointed out that the figures for 1950-51 were not strictly comparable with those of 1949-50, because, as a result of federal financial integration, the estimates for 1950-51 included the revenue and expenditure under central heads of the former Indian States and provision for payments, such as the privy purposes or grants incidental to the integration.

✓
Tax
remission.

revised Budget - 1950-51 - Rs 7.
In the budget estimates for 1950-51, as a surplus of Rs. 9.62 crores was anticipated at the then existing level of taxation, some concessions were made in the sphere of taxation. The Business Profits Tax was abolished, as it was thought to be the most important single factor affecting capital formation and the development of existing industries. There was reduction in the income-tax paid by the companies in order to help them to plough back more of their profits into their business. Relief was granted to the middle class by reducing the tax payable on slabs of personal income between Rs. 10,000 and Rs. 15,000 by half an anna, from 3½ annas to 3 annas. The exemption limit was also subsequently raised to Rs. 3,600 to give relief to the lower income groups. As a measure to stimulate savings and investment, the tax on the slab of income in excess of Rs. 15,000 was reduced from 5 annas to 4 annas. Changes were also intro-



duced in the sphere of personal super-tax by abolishing the distinction between earned and unearned income for super-tax purposes and also by reducing the maximum rate of super-tax to $8\frac{1}{2}$ annas. No change was made in the field of indirect taxation; but some reductions in rates were granted in respect of local letters and postcards, and slight reductions in the charges for telegrams and telephone trunk calls.

On the expenditure side, the budget provided for Rs. 168.01 crores for defence which represented 50 per cent. of the total expenditure. Civil expenditure estimate for 1950-51 was Rs. 169.87 crores, of which Rs. 26.18 crores was due to the federal financial integration of the territories which were formerly called Indian States and Rs. 30.34 crores to such extraordinary items as relief and rehabilitation of displaced persons, food subsidies, election expenses and reparation payments. In this budget the total revenue was placed at Rs. 338.59 crores and the total expenditure at Rs. 337.88 crores. The Select Committee, to which the budget was referred, made some slight modifications.

The budget for 1950-51 was a 'colourless' one as the proposals therein did not introduce any new principle and followed the same lines as those for 1949-50 and, in fact, it hardly introduced any fresh proposals. The budget for 1950-51 was, therefore, open to the same criticism as the budget for 1949-50. A budget surplus was, indeed, shown, but at the cost of upsetting the State budgets, because grants to the States were greatly reduced. Inflation has always been considered by the public as the most urgent problem, but the budget could hardly be said to have made any substantial contribution to its solution. The total expenditure was not reduced to any considerable extent, even if the expenditure on account of federal financial integration were left out. *Criticism.*

5. A BRIEF FINANCIAL REVIEW

The financial history of India is a succession of periods of surplus and deficit. But the net result always is increased expenditure and additional taxation. During the years 1901-06, the Government of India were under the demoralising influence of fat surpluses, which tempted them to indulge in increasing recurring expenditure. This soon afterwards became a serious *Deficits and surpluses.* *Increased expenditure and fresh taxation.*



matter, and compelled the Government, faced with deficits on account of the decrease of the opium revenue and the creation of the new (now defunct) Province of Eastern Bengal and Assam, to have recourse to fresh taxation. A second period of increased expenditure and increased taxation began with the outbreak of the war in 1914-15. Another new factor responsible for a further growth in expenditure in the period following the First World War was the introduction of the Reforms. During the seven years 1914-15 to 1920-21, the expenditure of the Central Government vastly increased. This great and sudden increase was met partly by increased taxation and partly by budgetting for deficits. There was a cumulative deficit of Rs. 100 crores, or an average of Rs. 20 crores per annum, during the five years 1918-19 to 1922-23. Besides, during the period 1914-15 and 1922-23, fresh taxation amounting to a total annual sum of Rs. 49 crores was imposed. In 1922-23, the fifth successive year of a deficit budget, in response to an emphatic demand by the Central Legislature, the Governor-General appointed a Retrenchment Committee under the chairmanship of Lord Inchcape.¹ Its members were mostly eminent men of business. This Committee subjected the expenditure of the Central Government to a searching scrutiny, and unanimously recommended a net reduction in expenditure amounting to Rs. 19½ crores, part of which was to be effected gradually in a number of years. The expenditure for 1922-23 was Rs. 136.43 crores, while that for 1927-28 was Rs. 128 crores, inclusive of the expenditure on railways.²

Inchcape
Retrench-
ment Com-
mittee.

There was, however, a considerable increase during the two following years. The economic depression necessitated the appointment of another Retrenchment Committee, and, in accordance with its recommendations, considerable reductions in expenditure were made between 1931-32 and 1933-34. During this period, a heavy amount of additional taxation was imposed to meet the deficits in the Central budgets. Expenditure touched the lowest point in 1933-34, but thereafter a tendency towards an increase again set in. The reduction that had been effected

¹ Retrenchment Committees were also appointed at this time in most of the Provinces.

² Vide *Report*, Cd. 131 of 1900.

during the depression were, however, very small in comparison with the decline in national income during these years, and it is regrettable that, even before the depression had disappeared, the expenditure of the Government was allowed to go up again.

6. RECENT GROWTH IN CENTRAL EXPENDITURE

The enormous expenditure of the Government of India during British rule had been adversely commented upon by impartial critics from time to time. The administration was considered to be extremely top-heavy. But during recent years, particularly after the outbreak of the Second World War, there has been a phenomenal increase in the expenditure of the Central Government. The Central expenditure which stood at Rs. 85.15 crores in 1938-39, rose to Rs. 94.57 crores in 1939-40, to Rs. 496.71 crores in 1944-45 and to Rs. 484.57 crores in 1945-46. After the cessation of hostilities and the attainment by India of independence, the Central expenditure did not show substantial decline. The expenditure in the accounts of 1948-49 was Rs. 3,20.85 crores and in the revised estimates for 1949-50 was Rs. 3,22.52 crores on the revenue side alone. For the year 1950-51 the expenditure has been estimated in the Budget at Rs. 3,37.88 crores. This rise in expenditure has taken place both for defence and civil administration. Dr. Matthai contended that, of the estimated civil expenditure of Rs. 165.16 crores in 1949-50, nearly a third was accounted for by such extraordinary items as refugee relief and rehabilitation, food subsidies, and reparation claims. Defence expenditure, in his opinion, was kept at a high level mainly because of the Kashmir operations and because of the need for expanding the Navy and the Air Force.

The deficit budgets that India's Finance Ministers have recently presented emphasise the need for drastic control in expenditure. Deficit budgeting is justifiable only in times of depression when large measures of public utility are undertaken by the state in order to check depression, to overcome its mischievous consequences and to help recovery. But during a period of inflation deficit budgeting is not only undesirable but positively dangerous, as it gives an impetus to the inflationary trend.

In 1944-45
and 1945-46.

In 1948-49,
1949-50,
1950-51.

Rs. 1,51.52
Rs. 375.4

Civil Ex-
penditure
in 1949-50.

Defence
expenditure.

Deficit
Budgeting

**Criticism.**

As regards defence expenditure, it is true that it rose mainly owing to historical accident, but this cannot be pleaded as a justification for the present huge size of it. Military expenditure is naturally high during a world war, but even in peacetime budgets defence accounts for a very high percentage of India's total expenditure. It has been pointed out that in the year 1948-49, while India spent 47 per cent. of her central expenditure on defence services, U.S.A. spent 25 per cent., U.S.S.R., spent 17 per cent. and U.K., 13 per cent. In 1949-50, India spent nearly 50 per cent. Such huge defence expenditure can be justified only on the ground that it is absolutely necessary for maintaining the freedom of the country.

Absence of Control.

Absence of expenditure control has been even more conspicuous in the capital section of India's budget. A large part of the capital budget is not submitted to the vote of the legislature at the time of passing the annual revenue budget. The result is the most unsatisfactory state of the capital budget.

Social services starved.

The civil expenditure policy in India suffers from a very serious defect. The state in India has been, until recently, functioning as a "police state"; even to-day it has not started playing properly its role as a full-dedged "welfare state". As a consequence, while in the budgets of countries like the United States and the United Kingdom the trend towards increasingly large social outlays has been established for many years past, public expenditure for such purposes in India comes to a very small figure. But the awareness of the fact that the Government in India spends too little on social services is growing and it may be expected that, when the purely temporary factors will have disappeared, public opinion will demand that large sums be made available for what may be called the nation-building activities.

Undue expansion of civil administration.

Whatever justification there may be for heavy defence expenditure, there can be none for the excessive expenditure on civil administration. The administrative personnel was enlarged abnormally on account of the war and some other special factors, but no retrenchment worth the name was effected after

¹ *Eastern Economist*, March 4, 1949.

² *American Economic Review*, March, 1949. "Public Expenditure Policy" by P. J. Strayer.



the war. On the other hand, innumerable fresh appointments have been made during the last few years. The expansion of the Central Secretariat in all the grades of officers, particularly in the posts of Secretaries, Additional Secretaries, Joint Secretaries, Deputy Secretaries, Assistant Secretaries and Superintendents, has been very large. These additions to the list of officers have not only largely increased civil expenditure but have also led to great deal of inefficiency and irresponsibility. The salaries drawn by these high officers are disproportionately large.¹

Besides, the Government expenditure has often been haphazard and thoughtless. Instances are not wanting when Government, after pushing through a scheme half-way, has abandoned it. Evidences of such thoughtless extravagance are unfortunately not few. In all appropriateness the Government plans should be thoroughly examined by experts from all points of view before public money is spent upon their execution. A little foresight and cautious action will spare us the disgraceful spectacle of Government development projects left half done, involving large waste of public funds.

From an examination of Governmental expenditure the need for economy has been fully established. The fact is that the country can hardly afford the present extremely high scale of expenditure. The limit of direct taxation has already been reached, while the prospects offered in the field of indirect taxation are not promising. Therefore, if India is to avoid financial disaster, expenditure should be more effectively controlled in future than it has been in the past. Besides, the effects on the inflationary condition of the country of a policy of heavy public expenditure should not be ignored. It has been claimed on behalf of the Government that the recommendations of the Economy Committee were being carried out, but no tangible result has so far been achieved. There is, however, ample evidence to show that the room for economy and retrenchment in various departments of the Central Government is very large.

Need for
economy
and retrench-
ment.

¹ *Vide* Dewanchand Information Bureau Bulletin.

Dr.
Matthai's
view.

It is significant that Dr. John Matthai, immediately after relinquishing the office of Finance Minister, referred in the course of a public statement to the extravagance in the Central Government expenditure which he was unable to control. He said that Ministers were unwilling to observe economy¹ and observed that the greatest sinner in this respect was the Prime Minister who was in charge of External Affairs. This reveals a dismal state of things and calls loudly for redress.

The need for economy has been repeatedly urged by the legislature and the general public and admitted by the Government, but no adequate steps have so far been taken to give effect to this demand. Even the modest recommendations of the Economy Committee appointed two years ago have not been carried out in practice. One measure, however, has just been adopted. An Estimates Committee was set up during the Budget Session of 1950. The estimates presented before Parliament will be scrutinised by this Committee so that the Government may have the advantage of a detailed examination of the estimates on behalf of the Legislature. The Committee will not be concerned with matters of policy but its main function will be to consider how economies in public expenditure can be effected consistently with the policy on which the budget has been framed. The setting up of the Estimates Committee is a step in the right direction and, if the representatives of Parliament on this Committee perform their duty with zeal and energy, it will be able to minimise extravagance in public expenditure.

Solution.

A real solution of the present difficulties can be found if economy and retrenchment are accepted as their watchwords by the Government. Economy, however, should be of the proper sort and retrenchment should be in the right directions. All wasteful expenditure should be eliminated. But it would be false economy to curtail expenditure on social services of a nation-building character. None of the schemes which have

¹ The experience of the present Finance Minister on the question of economy is not different. Mr. Deshmukh observed on October 31, 1950 that, before leaving for Europe, he had instructed the Finance Secretary to see what the various ministries would give in the way of economies and that when he came back he enquired of the results of investigations which were "not very encouraging".



been initiated for increasing food and essential industries and fighting inflation should be curtailed, postponed or abandoned. Nor should economy be secured in Central finance by starving the State Governments. Salaries should be reduced in the higher grades of the public services and all unwanted posts should be abolished in the interest not only of economy but also of efficiency.

Burden of
taxation.

7. PUBLIC DEBT

The Public Debt of the Central Government is divided into two classes: (i) Permanent Debt, and (ii) Floating Debt. The latter consists of temporary borrowings, such as treasury bills and ways and means advances from the Reserve Bank of India for not more than twelve months. Another classification of the Public Debt is into (i) Debt in India, and (ii) Debt in England. Besides the permanent and floating debts in India and in England, on each item of which the Government have to pay interest each year, there is usually a certain amount of loans outstanding on which no interest has to be paid, by reason of the fact that they represent unclaimed balances of old loans which have been notified for discharge and have ceased to bear interest from the due date of discharge.

Permanent
and float-
ing debt.

The composition of the public debt of India in 1938-39 was as follows¹ :—

Composi-
tion in
1938-39.

1. Sterling loans	..	..	..	Rs. 464·94 crores.
2. Rupee loans	..	..	..	Rs. 437·87 ..
3. Small savings	..	..	..	Rs. 141·45 ..
4. Treasury bills and ways and means advances	..	..	..	Rs. 46·30 ..
5. Total interest-bearing obligations (including unfunded debts and deposits)	..	..	..	Rs. 1205·76 ..

¹ The amount of appropriation for reduction or avoidance of debt in 1936-37 was Rs. 3 crores. A regular scheme of debt redemption was adopted by the Government of India in 1925, prior to which year reliance had been briefly placed on casual budget surpluses for this purpose.



Sterling
debt liqui-
dation.

The Second World War brought about a fundamental change in the composition and magnitude of India's public debt. A huge amount of sterling balances began to accumulate in London as a result of (1) the payment made by the British Government in sterling to India for a share of the war expenditure incurred by India and for large purchases of raw materials and goods paid for by the Government of India, (2) contributions made for defence modernisation and (3) sterling receipts for sales of silver on behalf of the Government of India. A part of the accumulated sterling balances was utilised for the purpose of liquidating our foreign debt. At first the Reserve Bank of India purchased sterling non-terminable securities in the open market and transferred them to the Government of India. An equivalent amount of rupee debt was created and thus the sterling debt was cancelled. In February, 1940, a voluntary scheme of repatriation was undertaken. Since this did not prove sufficiently successful, a scheme of compulsory acquisition of sterling debt was adopted. The Government of India bought the required amount of sterling from the Reserve Bank of India and paid the foreign bond-holders at the current market price. The necessary amount of rupees was obtained by the issue of Rupee counterparts to the Reserve Bank and by ways and means advances from the Bank. This Rupee debt initially held by the bank was subsequently transferred to home savers when demand in the market for these loans began to increase. The second compulsory scheme introduced in 1941 was responsible for the redemption of $3\frac{1}{2}$ per cent. sterling stock and the cancellation of railway debentures. Thus as a result of these schemes of repatriation, voluntary and compulsory, the total sterling loans in 1949-50 stood at Rs. 39.54 crores.

This scheme, which was framed by Sir Basil Blackett, then Finance Member, provided for an annual contribution of Rs. 4 crores *plus* one-eighth of the amount by which the total debt outstanding in any year exceeded the total debt outstanding on the 31st March, 1923. Though originally designed for five years, these arrangements were continued till 1932-33. But they placed too great a strain on the finances, and, besides, were found to have become more than adequate in view of an improvement in the debt position. Accordingly, the annual provision was reduced in 1932-33 to the figure of Rs. 3 crores, at which level it was kept till the beginning of World War II.



On the 28th February 1950, the Government of India's debt position stood as follows:—

Debt on
Feb. 28,
1950.

				(In lakhs of Rupees)
<i>In India :</i>				
Public Debt .. .. .	..	..	..	18,47,55
Unfunded Debt .. .. .	..	..	..	4,26,29
Deposits .. .. .	..	..	..	2,24,87
Total obligations in India				24,98,71
<i>In England :</i>				
Public Debt .. .. .	..	..	..	32,92
Unfunded Debt .. .. .	..	..	..	3,13
Total obligations in England				36,05
Dollar Loan .. .. .	..	..	..	26,29
Total Interest-bearing obligations				25,61,05

The net interest payments are as follows: 1948-49, Rs. 34.29 crores; 1949-50 (Revised), Rs. 33.81 crores; 1950-51 (Budget), Rs. 31.50 crores.¹

The National Debt appears to be very large for a poor country like India. But a substantial part of it can hardly be regarded as a burden, as the State derives income from the undertakings financed by such loans. On the question whether the State should undertake industrial operations or not, opinion, of course, is divided. But there is one advantage. When the money required for such undertakings is borrowed by the Government, they can obtain loans at cheaper rates of interest.²

¹ The item, interest on other obligations, involved the payment of Rs. 12 crores 43 lakhs in 1936-37, but only 4 crores and 6 lakhs has been provided in the Budget for 1950-51. The 'other obligations' consisted of the 'Unfunded Debt', the fixed deposits of Provincial Governments, the deposits of balances of the Famine Relief Fund, and the deposits of the Railway Reserve Fund and of the Depreciation Reserve Funds of Railways and of other commercial departments. The 'Unfunded Debt' consisted principally of the Post Office Savings Bank Deposits, the Post Office Cash Certificates, and of State and other Provident Funds. Interest on other obligations.

² The bulk of the public debt is at 3 or 3½ per cent. Mr. Gokhale, in his speech in the Viceregal Council, February, 1911, compared this rate of interest with the rates paid by some other countries, and tried to prove that the credit of India was excellent. "Japan", said he, "borrows at from 4 to 7 per cent.; Russia borrows at about 5 per cent.; Turkey borrows at 5 per cent. and over; China borrows at between 4 and 7 per cent., 4 per cent. in a few cases, 6 and 7 per cent. being the usual rate."



Productive
and Un-
productive
debt.

As for the amount of debt, Rs. 107 crores were inherited by the Indian Government from the East India Company; and it is sometimes argued that the debt incurred by a commercial body should not have been fastened on the people of India. That amount steadily grew by successive additions. But between 1888 and 1907, the unproductive portion of the debt was steadily reduced. "The unremunerative debt", said Sir G. Fleetwood Wilson in 1907,¹ "has shrunk in the last twenty years from being nearly one-half to being just over one-seventh of the total volume of our outstanding loans."² This policy was continued till the commencement of the First World War. Between 1914 and 1925, there was an addition of Rs. 462.42 crores to the public debt. This great increase was brought about, firstly, by the First World War, to the expenses of which India contributed directly Rs. 150 crores and various other sums in an indirect manner; and, secondly, by five successive post-war deficits, aggregating about 100 crores of rupees. With the increase in the amount of debt the interest charges also grew. From the year 1916-17, there was a large addition to the unproductive debt. In the later thirties, however, the unproductive debt was considerably decreased.

Loans or
taxes?

The principles which should guide the Government in providing for any expenditure by means of loans may be laid down as follows: (a) the Government should meet all ordinary expenditure out of the ordinary revenues; (b) they should not place the burden on posterity for any improvements which tend to benefit the present generation; (c) when any measure is undertaken of which the benefit is likely to accrue to future generations, it would not be improper to finance such a measure partly, or even wholly, out of a loan; and (d) in case of a heavy and unexpected outlay, which cannot be met out of the ordinary revenues, and which would place an excessive burden on the people if it were met by enhanced taxation, it would be better to have recourse to a loan, provided that suitable measures are adopted for redemption. The view is also held by some authorities that Government would be justified, at a time of acute economic depression, to help industry and trade by raising

¹ *Vide* Sir G. Fleetwood Wilson's Budget Speech, 1907.

² The critics of the Government argued that inasmuch as the productive public works were likely to deteriorate in value in the course of time, this was an over-estimate.

loans. As a general proposition, it may be laid down that it is advisable to keep the national debt down at as low a figure as possible, unless the interests of the country dictate a different policy.

The Government of India has not yet brought forth a regular policy of a steady reduction in debt to be achieved by means of a sinking fund fed by part of a budget surplus and not as now by means of an annual contribution.

However, a good feature of the public debt of the Government of India is that the greater portion of the total debt may be regarded as productive. Of Rs. 2,571 crores at which the total debt of the Government stood on March 31, 1950, about Rs. 1,798 crores may be considered to be productive. This figure consisted of (1) Rs. 721 crores, being capital outlay on railways, (2) Rs. 288 crores, being advances, (3) Rs. 208 crores being purchase of annuities for sterling pensions, (4) Rs. 284 crores representing cash and investments, including India's subscription to the International Monetary Fund and the World Bank, and (5) Rs. 300 crores, representing the debt of Pakistan to India.

8. PROVINCIAL FINANCE

From 1833, the whole of the revenue of India was treated as a single fund, collected into a central account and thence doled out piece-meal to the various provinces according to the requirements of each. The Provincial Governments collected and ultimately disbursed a large proportion of the revenues, but as they gained nothing by enhanced efficiency, the development of public revenues did not proceed fast. Besides, as they had no motive for economy, the system led to much extravagance. Moreover, there were constant disputes between the Central and Provincial Governments. Even the minutest items of expenditure had to be reported for the orders of the Government of India.

History.

Direct control by Supreme Government.

In order to remedy this unsatisfactory state of things the first step was taken in 1871. Certain departments were made over to the Provincial Governments, and they were credited with departmental receipts together with a lump sum of money. The second step towards a system of provincial finance was taken in 1877, when some heads of revenue were made over



Provincial
contracts.

Quasi-
permanent
settlements.

Perman-
ent settle-
ment.

to the provinces instead of lump sums of money and the Provincial Governments were given power to meet deficits by provincial taxation. From 1882 to 1904, there was a system of provincial contracts which were revised every five years, and which proved to be a fertile cause of friction, improvidence, and waste. In 1904, quasi-permanent settlements were made with all the provinces. In 1911, the financial settlements with most of the major provinces were made permanent: succour to a distressed province was to be given only in case of a widespread famine. On the other hand, the Central Government would call upon the provinces for aid in case of a war or in a grave financial crisis. Revenue derived from opium, salt, customs, post office, telegraphs, mint, exchange and state railways was wholly Imperial. Land revenue, irrigation, stamps, excise, assessed taxes and forests were divided heads of revenue. On the expenditure side, the charges for military services, debt services, and certain other heads were entirely Imperial. General Administration was divided, while many of the important heads of expenditure were wholly provincial. Subject to certain contingencies, this settlement was made a fixed, rigid, and permanent one.

Meston
Award.

With the introduction of the Montagu-Chelmsford Reforms, this state of affairs passed away. There was a complete separation between the finances of the Central Government and those of the Provincial Governments. The system of divided heads of revenue was altogether done away with. Land revenue, irrigation, excise, and stamps were wholly provincialised. The provinces were also to get a very small share of the growth of the income-tax revenue. As under this arrangement the Government of India's resources were somewhat curtailed, it was arranged that in 1921-22, the Provincial Governments should contribute Rs. 983 lakhs to the Government of India. This, however, was regarded as a transitional measure, the ultimate aim being to dispense with provincial contributions altogether.

Provincial
contribu-
tions.

For the year 1921-22, the fixed provincial contributions in lakhs of rupees were: Madras, 348; Bombay, 56; Bengal, 63; United Provinces, 240; Punjab, 175; Burma, 64; Central Provinces and Berar, 22; and Assam, 15. It was also decided that as the finances of the Central Government would improve,



the provincial contributions were to be reduced. It was arranged that the provinces whose contributions reached certain standards would have preference in the reduction. Accordingly, considerable reductions were effected in 1925-26 and 1926-27, and in the Central budget for 1927-28 no provision was made for provincial contributions.

As an integral part of the scheme of financial autonomy, some independent power of taxation was also conferred upon the provinces. They were authorised, without the sanction of the Central Government and Legislature, to impose taxes, fees, or duties on (1) land put to non-agricultural uses, (2) succession, (3) betting or gambling permitted by law, (4) advertisements, (5) amusements, (6) any specified luxury, (7) registration, (8) stamps other than those of which the amount was fixed by Indian legislation. They were also given the right to borrow, under certain conditions, on the security of their own revenues.

Powers of
taxation
and
borrowing.

Unfortunately, from the date of separation of provincial from central finance, both the Central Government and the Provincial Governments had to pass through a period of acute financial distress. As in the Central Government, so also in the provinces, expenditure considerably increased, owing partly to high prices and partly to the increased cost of administration. A large portion of the provincial revenues was annually swallowed up by the reserved departments. Very little was left for meeting the growing demands of the nation-building departments, *e.g.*, sanitation, education, industry, agriculture, etc., which were transferred subjects under the Reforms. There was dissatisfaction in all the provinces on account of the Meston Award, under which the revenues were divided between the provinces and the Central Government and the provincial contributions were fixed. On the other hand, as we have already seen, the Central Government also was faced with a series of budget deficits, and was unable to come to the relief of the provinces by remitting the provincial contributions. This handicap seriously endangered the success of the Reforms, inasmuch as the ministers could not effect those improvements in the nation-building departments which were eagerly and insistently demanded by public opinion.

Financial
distress
in the
Provinces.

In 1921-22, it was found necessary to remit the contribution of Bengal (63 lakhs per annum) for three years. The case of this

province was exceptional, and it had been recommended to the especial consideration of the Government of India by the Joint Select Committee of Parliament. This concession led other provinces also to make demands for a similar remission. In 1922-23, the position of the provincial administrations became serious. Out of nine provinces, seven had to budget for deficits, the aggregate deficits amounting to Rs. 352 lakhs. The Central Government having failed to come to the rescue of the provinces, these latter were compelled to impose new taxation and retrench expenditure. In 1922-23, Bengal imposed new taxation to the extent of 140 lakhs; Bombay, 60 lakhs; Madras, 78 lakhs; Assam, 3 lakhs. Retrenchment Committees were appointed in several provinces. The Bengal Retrenchment Committee recommended a saving of 190 lakhs, the Punjab Committee, 37½ lakhs, and the Bombay Committee, 88 lakhs. These strenuous efforts improved the provincial finances considerably in 1923-24. The financial positions of the provinces were further strengthened by the remission and ultimate abolition of the contributions.

Revenue
and Ex-
penditure
of the
Provinces.

Criticism.

(The system of provincial finance introduced under the Montagu-Chelmsford Reforms was subjected to severe criticism both in and outside the legislatures. The chief grounds of objection were as follows: Central and provincial sources of revenue were demarcated on the wrong principle of a clean-cut; although the provinces required ever-increasing revenues to develop their nation-building activities, the more elastic sources of revenue were allotted to the Central Government; the distribution of the resources among the provinces was not made on an equitable basis, some provinces getting far larger resources than others relatively to their respective populations; the burden of provincial taxation fell mainly upon the agricultural classes, while the industrial classes contributed mostly to the Central Exchequer.¹

Layton
Report.

No heed was paid at the time to these criticisms. The whole subject was investigated by Sir Walter Layton, the Financial Assessor to the Simon Commission. In the Report submitted by him, he fully endorsed the substance of the criticisms. He specially emphasised the financial difficulties of Bengal, whose

¹ For a full discussion of this subject, see the author's *Provincial Finance in India*, chap. x.

position had become almost hopeless.¹ He recommended the re-allocation of resources as between the Central Government and the Provincial Governments, and suggested the imposition of a number of fresh taxes. His chief recommendations were as follows: (1) "For administrative and fiscal reasons it is desirable that the customs duty on imported liquor should be brought into relation with the excise policy of each province.... the provinces should be given the right of imposing further duties in the form of excises on such liquor in accordance with their excise policy"; (2) "The revenue from commercial stamps should be transferred to the centre"; (3) "To meet the claims of the industrial provinces, one-half of the proceeds of the income-tax paid by residents of a province should be assigned to the province concerned"; (4) "The exemption from income-tax of agricultural incomes should be abolished by definite stages"; (5) "There should be a Provincial Fund fed by specially designated taxes, including the following: (a) excise on cigarettes, (b) excise on matches, and (c) the duty on salt.... The resources of this Fund should be automatically distributed to the provinces on a *per capita* basis."²

This question was considered in connection with the proposals for constitutional changes which were discussed at the Round Table Conferences in London. A Committee presided over by Lord Peel was appointed at the First Round Table Conference to investigate the question. This matter was further considered by the Federal Finance Committee which reported in 1932. The recommendations made by the Committees were taken into

Peel Committee.

Federal Finance Committee.

¹ Sir Walter Layton observed: "The allocation of resources between the centre and the provinces respectively has been criticised and with justice on three main grounds:

(a) Although the provinces have rapidly expanding needs, the sources of provincial revenue (of which the chief are land revenue, alcoholic excises, and stamps) are almost stationary, while the revenue of the centre (the chief sources are customs, non-alcoholic excises, income-tax, and salt duty) which has to meet comparatively stationary needs has expanded and is capable of further expansion.

(b) It has treated the provinces very unequally, by giving some of them a much greater proportionate increase of revenue than others.

(c) It has given practically no power to the provinces to tax industrial activities, and has therefore handicapped the industrial provinces." Sir Walter pointed out that "in Bengal the expansion of educational and other services has practically ceased." (*Report of the Simon Commission*, vol. ii, pp. 235 and 274).

² *Report of the Simon Commission*, vol. ii, pp. 274-275.



Government of
India Act,
1935.

consideration by the British Government, and some important provisions were included in the Government of India Act, 1935.

This Act provided for a scheme of federal finance. Certain heads of revenue were made entirely federal, such as import duties and the corporation tax. Certain others were made entirely provincial, *e.g.*, land revenue; duties of excise on alcoholic liquors, opium and other narcotic drugs; taxes on agricultural income; taxes on land and buildings; duties in respect of succession to agricultural land; capitation taxes; taxes on professions and trades; taxes on the sale of goods and on advertisements; taxes on luxuries, including taxes on entertainments, amusements, betting and gambling. A few other heads of revenue were made partly federal and partly provincial, such as income-tax and, under certain circumstances, duties on salt, federal excise duties, and export duties. A fourth category of taxes was to be administered by the Federal Government, but the proceeds were to be transferred to the provinces, subject to surcharges for federal purposes in cases of emergency, *e.g.*, duties in respect of succession to property other than agricultural land, such stamp duties as were mentioned in the Federal Legislative List, terminal taxes on goods and passengers carried by railway or air, and taxes on railway fares and freights. The Act also provided for grants-in-aid to certain provinces out of the federal revenues.

Sir Otto
Niemeyer's
Report.

Sir Otto Niemeyer was appointed by the Secretary of State to recommend the proper distribution of the proceeds of a share of the income-tax and of the export duty on jute to the provinces, as also the subventions to be paid to the different provinces. His recommendations were adopted by an Order-in-Council, which provided as follows: Fifty per cent. of the proceeds of the income-tax should be assigned to the provinces and to the Federated States, and the total sum to be distributed shall be apportioned at the following percentages: Madras, $\frac{1}{4}$ 15; Bombay, $\frac{1}{4}$ 20; Bengal, $\frac{1}{4}$ 20; the United Provinces, $\frac{1}{4}$ 15; the Punjab, $\frac{1}{4}$ 8; Bihar, $\frac{1}{4}$ 10; the Central Provinces and Berar, $\frac{1}{4}$ 5; Assam, $\frac{1}{4}$ 2; the North-West Frontier Province, $\frac{1}{4}$ 4; Orissa, $\frac{1}{4}$ 2; Sind, $\frac{1}{4}$ 2. But, out of the total amount falling to be distributed among the provinces, the Federal Government might retain



"for a first period of 5 years, in each year, the whole or such amount as, together with any general budget receipts from the railways, would bring the Central Government's share in the divisible total up to 13 crores, whichever was less, and for a second period of 5 years, in the first year five-sixths of the sum, if any, retained in the last year of the first period, decreasing by a further sixth of that sum in each of the succeeding 5 years."

The Order-in-Council provided further that 62½ per cent. of the net proceeds of the jute export duty should be assigned to the jute-growing provinces. It also provided for the following grants-in-aid out of the federal revenues: the United Provinces, 25 lakhs of rupees annually for 5 years; Assam, 30 lakhs of rupees annually; the North-West Frontier Province, 1 crore of rupees annually; Orissa, 47 lakhs of rupees for 1 year, 43 lakhs of rupees annually for the next 4 years, and 40 lakhs of rupees annually thereafter; and Sind, 110 lakhs of rupees for 1 year, 105 lakhs of rupees in each of the next 9 years, 80 lakhs of rupees in each of the next 20 years, 65 lakhs of rupees in each of the next 5 years, 60 lakhs of rupees in each of the next 5 years, and 55 lakhs of rupees in each of the next 5 years.

Further, in accordance with the recommendation of Sir Otto Niemeyer, the debts due from the provinces to the centre were consolidated or cancelled, either wholly or in part, and the balances held by the Central Government were decentralised. The Provincial Loans Fund was, accordingly, wound up as from 1st April, 1937. All receipts and liabilities which, on the 31st March, 1937, were associated with the balances of an intrinsically local nature, or definitely associated with any function which, after that date, became a function of Provincial Governments, were assumed by the Provincial Governments concerned.

This financial arrangement substantially improved the financial positions of the provinces. Some of the provinces, however, were not completely free from difficulties. Bengal was not fully satisfied with the arrangement and urged that, if justice was to be done to her, the whole of the proceeds of the jute export duty and a considerably higher proportion than 20 per cent. of the provincial share of the income-tax proceeds be made over to her.

Grants-in-aid.

Provincial Debts cancelled or reduced.

Balances.

Remarks.

Bengal's grievance.



9. FEDERAL FINANCE UNDER THE NEW CONSTITUTION

In the matter of division of financial resources between the Union Government and the State Governments the new Constitution of India follows closely the pattern of the Government of India Act, 1935, but some of the provisions have been deliberately kept indefinite in order to introduce an element of flexibility into the scheme.

Union
List.

The Union List includes: (1) taxes on income other than agricultural incomes; (2) duties of customs including export duties; (3) duties of excise on tobacco and other goods manufactured or produced in India, except (a) alcoholic liquors for human consumption; (b) opium, Indian hemp and other narcotic drugs and narcotics, but including medicinal and toilet preparations containing alcohol or any substance included in sub-paragraph (b) of this entry; (4) corporation tax; (5) taxes on the capital value of assets exclusive of agricultural land of individuals and companies, taxes on the capital of companies; (6) estate duty in respect of property other than agricultural land; (7) duties in respect of succession to property other than agricultural land; (8) terminal taxes on goods and passengers, carried by railway, sea or air, taxes on railway fares and freights; (9) taxes other than stamp duties on transactions in stock exchanges and future markets; (10) rates of stamp duty in respect of bills of exchange, cheques, promissory notes, bills of lading, letters of credit, policies of insurance, transfer of shares, debentures, proxies and receipts; (11) taxes on the sale or purchase of newspapers and on advertisements published therein. The proceeds of some of these taxes are to be kept by the Union Government for its exclusive use and of some others are to be divided between the Centre and the States, while the proceeds of the rest are to be assigned to the States.

States list.

The State List includes: (1) taxes on agriculture income; (2) duties in respect of succession to agricultural land; (3) estates duty in respect of agricultural land; (4) taxes on lands and buildings; (5) taxes on mineral rights subject to any limitations imposed by Parliament by law relating to mineral development; (6) duties of excise on the following goods manufactured or produced in the State and countervailing duties at the same or lower rates on similar goods manufactured or produced else-

where in India—(a) alcoholic liquors for human consumption, (b) opium, Indian hemp and other narcotic drugs and narcotics, but not including medicinal or toilet preparations containing alcohol or any substance included in (6) of this entry; (7) taxes on the entry of goods into a local area for consumption, use or sale therein; (8) taxes on the consumption or sale of electricity; (9) taxes on the sale or purchase of goods other than newspapers; (10) taxes on advertisements other than advertisements published in the newspapers; (11) taxes on goods and passengers carried by road or on inland waterways; (12) taxes on vehicles, whether mechanically propelled or not, suitable for use on roads including tram cars; (13) taxes on animals and boats; (14) tolls; (15) taxes on professions, trades, callings and employments; (16) capitation taxes; (17) taxes on luxuries, including taxes on entertainments, amusements, betting and gambling; (18) rates of stamp duty in respect of documents other than those relating to transactions in stock exchanges and future markets.

Article 268 of the Constitution provides that such stamp duties and such excise duties on medicinal and toilet preparations as are mentioned in the Union list shall be levied by the Centre but collected and appropriated by the States.

Duties levied by the Union but collected and appropriated by the States.

Article 269 provides that duties and taxes (a) in respect of succession to property other than agricultural land; (b) estate duty in respect of property other than agricultural land; (c) terminal taxes on goods or passengers carried by railway, sea or air; (d) taxes on railway fares and freights; (e) taxes other than stamp duties on transactions in stock exchanges and future markets; (f) taxes on the sale or purchase of newspapers and on advertisements published therein, shall be levied and collected by the Government of India and shall be assigned to the States.

Taxes levied and collected by the Union but assigned to the States.

Under Article 270, taxes on income, other than agricultural income, shall be levied and collected by the Government of India and distributed between the Union and the States.

Taxes levied and collected by the Union and distributed between the Union and the States.

Article 272 provides that Union excise duties other than duties on medicinal and toilet preparations shall be levied and collected by the Government of India but if Parliament so provides there shall be paid out of the Consolidated Fund of India to the States sums equivalent to the whole or any part

Taxes levied and collected by the



Union and may be distributed between the Union and the States.

Surcharge on duties and taxes for purposes of the Union.

Grants in lieu of Jute Export duty.

Grants-in-aid.

Taxes on trades, professions and callings.

Salt Tax.

of the net proceeds of the duty in accordance with such principles of distribution as may be formulated by law.

Under Article 271, Parliament may at any time increase any of the duties or taxes referred to in Articles 269 and 270 by a surcharge for purposes of the Union and the whole proceeds of any such surcharge shall form part of the Consolidated Fund of India.

The Jute Export duty was, until recently, shared between the Centre and the jute-growing provinces. Under Article 273 of the new Constitution, however, the States will not get any shares of the jute export duty, but in lieu thereof they are to get grants from the Centre for a period of 10 years.

The Constitution provides that such sums as Parliament may determine shall be charged on the Consolidated Fund of India each year as grants-in-aid to such States as Parliament may determine to be in need of assistance and different sums may be fixed for different States. Grants-in-aid also will be paid to meet the cost of development schemes undertaken by the States with the Centre's approval, to promote the welfare of the scheduled tribes or to raise the level of the administration of scheduled areas to that of the rest of the areas of that State. Provision has been made for grants-in-aid to Assam equivalent to the average excess of expenditure over revenue during the two years immediately preceding the commencement of the Constitution in respect of the administration of tribal areas, and the cost of development schemes undertaken in Assam with the approval of the Government of India for raising the level of administration.

Provision has been made for enabling the legislature of a State to levy taxes for the benefit of the State or of a municipality, district board, local board or other local authority therein in respect of professions, trades, callings, or employments up to the total amount of 250 rupees per annum payable by a person.¹ ✓

In view of the association of the salt tax with the freedom movement of India, it was proposed to include its abolition in

¹ This is subject to the proviso that if in the financial year immediately preceding the commencement of the Constitution there was in force a rate of tax which exceeded 250 rupees per annum, such rate may continue to be levied until Parliament decides otherwise.



the Constitution. But, ultimately, it was thought wise not to fetter the hands of future legislators. The question of salt duty has, therefore, been left open for the future Parliaments to decide.

It has been provided in the Constitution that the property of the Union shall be exempt from all taxes imposed by a State or by any authority within the State except in so far as such taxes existed at the commencement of the Constitution. Local bodies wanted such taxing power, but the Drafting Committee was not prepared to give such bodies a *carte blanche*. The Constitution also exempts State property from Union taxation.

Taxation
of Union
property.

As some of the State sources of revenue are important from the point of view of principle as well as of yield, a detailed discussion of these is necessary. We shall take the agricultural income-tax first. The first and the second Income-Tax Acts which remained in force from 1860 to 1865 and from 1869 to 1873 respectively, taxed equally both agricultural and non-agricultural incomes. But when the income-tax was permanently adopted in the fiscal system of India in 1886, agricultural income was exempted from the operation of the tax. A long controversy spread over three quarters of a century raged over the question of the imposition of agricultural income-tax. The objection chiefly came from the landlords who took their stand on the terms of the Permanent Settlement and argued that they could not be called upon to pay income-tax on their income. But this claim was overruled. It was then urged that there was injustice on account of the existing land revenue and cesses. But the Taxation Enquiry Committee disposed of this argument and pointed out that no relief could be claimed on this ground. Administrative difficulty was also put forward as a ground for exemption. The Government of India Act, 1935, however, empowered the Provincial Governments to impose a tax on agricultural income. Bihar was the first province under Provincial Autonomy to impose a tax on agricultural income in 1938-39. Bihar was followed, a year later, by Assam. In Bengal an Agricultural Income Tax Act was passed in 1944. Madras, U.P. and Orissa have also introduced the agricultural income-tax.

Agricultural
Income-tax.



Floud Com-
mission's
recommen-
dation.

The Floud Commission recommended the abolition of the zamindari system and the State purchase of all landed rights. In case their main recommendation was not accepted, or the whole question was postponed, they suggested that as an interim measure, an agricultural income-tax be imposed in Bengal. The Bengal Agricultural Income-Tax Act of 1944 was the direct outcome of this recommendation. In fixing the rates of tax, Bengal and Assam, unlike Bihar, which had followed the 'step' system, adopted the 'slab' system. In Bengal the exemption limit has been fixed at Rs. 2,000, while in Bihar it is Rs. 5,000, and in Assam, Rs. 3,000. Bengal rates are as follows:

<i>Income</i>	<i>Rate</i>
First Rs. 1,500	... nil.
next Rs. 3,500	... 9 pies in the rupee
next Rs. 5,000	... 1½ annas in the rupee
next Rs. 5,000	... 2 annas in the rupee
Balance	... 2½ annas in the rupee

In the case of companies, firms or association of individuals, the rate is 2½ annas in the rupee on the whole of the total agricultural income.

The agricultural income-tax was long overdue and its levy was a step in the right direction. The inherent injustice of a fiscal system, which discriminated in favour of agricultural income by exempting it altogether from taxation, was too palpable to need any explanation. Moreover, this differentiation, supported by strong vested interests, had lasted rather too long.

Agricultural income-tax in Bengal, as well as in Bihar and Assam, has been adopted on a low level of taxation. The exemption limit, specially in Bihar, is rather high. The number of assesses is very small, and the bulk of the yield is paid by the few rich landlords. The tea gardens in Assam pay nearly 95 per cent. of the revenue from this source. The yield of agricultural income-tax in Bengal is not large. The yield was Rs. 77.61 lakhs in 1946-47 in undivided Bengal. In the revised estimates for 1949-50 and the budget estimates for



1950-51 the yield has been placed at Rs. 59.40 lakhs in West Bengal.

The agricultural income-tax system leaves much room for improvement.¹ The principle of graduation may be introduced. The differences in rates in the different States are an undesirable feature, and a uniform practice may, with advantage, be adopted in all the States.

We now come to the share of the States in the income-tax proceeds. The Government of India (Distribution of Revenues) Order, 1948, made a fresh allocation of the provincial pool of the income-tax. This allocation was an interim arrangement. Under this arrangement the share of West Bengal was drastically curtailed, while the share of East Punjab was also substantially reduced. The shares of some of the other provinces were increased. The percentage shares of the provinces were: Madras, 18; Bombay, 21; West Bengal, 12; U.P., 19; Punjab, 5; Bihar, 12; C.P. and Berar, 6; Assam, 3; Orissa, 3. This decision was taken by the Government of India without even consulting the provinces.¹ The constitutional propriety of the action of the Government of India was, therefore, open to serious objection. Apart from this aspect of the question, the argument the Government of India put forward in support of its decision to reduce the share of West Bengal and East Punjab was most extraordinary. The West Bengal Government showed convincingly in a Memorandum² on the subject how unsound the Government of India's argument was in so far as the reduction of West Bengal's share from 20 per cent. to 12 per cent. was concerned. The essence of the Government of India's argument was that the new Provinces, with their reduced areas and populations, could not "in fairness to the other provinces, continue to receive anything like the same share of the revenue as the undivided provinces." The Government of West Bengal replied that the problem should be examined anew, and that a scientific set of principles for uniform application to all provinces be adopted. Pending, however, the long-period solution the West Bengal Government asked for the retention of the Niemeyer Award intact.

Share of
States'
income-tax.

Re-allocation after
Partition.

Criticism.

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¹ *Provincial Taxation under Autonomy* by B. Das Gupta.

² Memorandum, March, 1948.



West Bengal
Govern-
ment's view.

The West Bengal Government, on an analysis of the underlying principles of the Niemeyer Award, (showed that under it Bengal's share in the divisible pool of income-tax had not been determined wholly on the basis of population; for if that had been done, Bengal would have got a share three times as large as that of Bombay.) They pointed out that, though the collections in Bombay and Bengal were at the time almost the same, the population of Bengal was three times as large as that of Bombay, but Bombay and Bengal had nevertheless been given equal shares, i.e., 20 per cent. each. It was, therefore, clear that, under the Niemeyer Award Bengal had obtained her share not on the basis of population but on that of collection. The Government of West Bengal, therefore, argued that, population not having been taken as the basis for the determination of Bengal's share under the Niemeyer Award, variation in population could not on this occasion be justly urged as a ground for alteration in her share. It was further pointed out that, even after reduction in population due to Partition West Bengal's population was a little larger than that of Bombay. The introduction of the basis of area, it was urged, was most surprising, being an entirely new one, as Sir Otto Niemeyer had nowhere mentioned it as a principle of distribution. If, however, the area concept was to have any significance in this context, obviously it would mean a density concept in the view of the Government of West Bengal, and if any importance was to be attached to it, West Bengal, with the highest density in the country, must receive due weightage for it. The Memorandum of the West Bengal Government might have added that, although under the Niemeyer Award, Bengal did not receive a square deal, she accepted the Award because a large debt of Bengal due to the Central Government was wiped out at the same time. The Government of West Bengal was on firm ground when it contended that the conclusion was irresistible that it was not possible to give to West Bengal anything less than what was given to Bombay.¹ And since Bengal's share under the Niemeyer Award was determined on the collection basis, equity demanded that West Bengal's sacrifice of her share in the divisible pool of income-tax should not, in any case, be made

¹ Memorandum by Government of West Bengal, March, 1948.

greater than India's loss of income-tax collections from the territories now forming East Pakistan. It was shown by careful calculation that, on account of the partition of Bengal, a gross sum of Rs. 38 lakhs, which used to be collected in the territories now in East Bengal, had been lost, and the loss in the net collection amounted, roughly, to about $\frac{1}{80}$ th of the total collection of the income-tax in Bengal. As 20 per cent. reduced in the same ratio would be 19·75 per cent., the share of West Bengal could not be less than 19·75 per cent. of the Provincial pool, in conformity with the underlying principles of the Niemeyer Award.

The Expert Committee, set up by the Central Government, recommended that the provincial share of the income-tax should be 60 per cent., and not 50 per cent. as it existed at that moment and that the basis for distribution, should be 20 per cent. on the principle of population, 35 per cent. on the principle of collection (or origin) and 5 per cent. for redressing any hardship that might arise as a result of the application of these two principles.

Expert Committee's opinion.

But the Constituent Assembly did not accept the Expert Committee's recommendations and the decision was that the existing financial arrangement should not be disturbed until the Finance Commission to be appointed within two years would review the situation and the President of the Indian Union would prescribe the distribution of resources on its recommendation. But certain provinces were so critical of the *interim* allocations made by the Government of India in 1948 that Mr. C. D. Deshmukh was appointed to give a fresh Award on the distribution of the divisible pool of income-tax. The divisible pool of income-tax for 1949-50 was estimated to be Rs. 84·30 crores and the amount payable to the States was Rs. 40·65 crores. In the budget estimates for 1950-51, the divisible pool has been placed at Rs. 108·78 crores and the amount payable to the States has been fixed at Rs. 54·39 crores.

Deshmukh Award.

Out of the States' moiety this year a sum of Rs. 150 lakhs will be retained by the Centre. Next year, the entire share of the States will be handed over to them. The yield of income-tax to the revenues of the West Bengal Government in 1948-49 (actual) was Rs. 543·48 lakhs and the estimated yield in 1949-50

was Rs. 526.00 lakhs. In the budget estimates for 1950-51, the yield from this source has been placed at Rs. 632.61 lakhs.

Mr. Deshmukh announced his Award a few months ago, which was accepted by the Government of India. According to this Award, the percentages for the different States are as follows: Bombay, 21; Madras, 17.5; West Bengal, 13.5; U.P., 18; C.P. & Berar, 6; East Punjab, 5.5; Bihar, 12.5; Orissa, 3; Assam, 3. The Award of Mr. C. D. Deshmukh is binding on the States, but it has failed to meet the criticisms urged by them. Evidently, Mr. Deshmukh has not made any re-allocation *de novo*. West Bengal, which is smarting under a sense of injustice, has to endure the present arrangement based on the Deshmukh Award in the expectation that the Finance Commission which will be appointed very soon will be able to work out new ratios on a strictly scientific and equitable basis.

Re-allocation of
Jute Duty.

The next head which demands our attention is the jute duty. Before Partition, the Government of India used to appropriate $37\frac{1}{2}$ per cent. of the net proceeds of the export duty on jute and jute goods and the remaining $62\frac{1}{2}$ per cent. was distributed among the four jute-growing provinces of Bengal, Bihar, Orissa and Assam. The Government of India (Distribution of Revenues) Order, dated the 17th March, 1948, reduced the proportion of the net proceeds to be assigned to the jute-growing provinces from $62\frac{1}{2}$ per cent. to 20 per cent. The jute-growing provinces strongly protested that the Centre had made itself the sole beneficiary of the new situation. In particular, West Bengal complained that, in reducing its share, no allowance was made for the fact that almost the entire manufacturing industry was located in West Bengal. Additional *ad hoc* grants were made to West Bengal of Rs. 40 lakhs in 1947-48 and of Rs. 50 lakhs each year in 1948-49 and 1949-50. But the West Bengal Government made a further representation for the re-consideration of the matter. The New Constitution does not provide for assignment of jute export duty to the provinces, but provides for grants in lieu of such assignments to be made out of Central Revenues to the four provinces concerned for a period of 10 years only. The Finance Commission for which the New Constitution makes provision is to determine the amount of such grant to each of the four provinces. Meanwhile,

Sri C. D. Deshmukh was appointed to give an Award as to the amounts payable to these provinces. Sri C. D. Deshmukh has recommended that, until the Finance Commission proposes any revision, the shares of the States in the grants-in-aid will be: West Bengal, Rs. 105 lakhs; Assam, Rs. 40 lakhs; Bihar, Rs. 35 lakhs; and Orissa, Rs. 5 lakhs. During the interim period the States are being paid grants according to this Award.

The introduction of Provincial Autonomy threw upon the provinces heavy responsibilities and the increasing need for funds led them to explore fresh avenues of taxation. Sales taxes are the most important group of provincial taxes introduced under the Government of India Act of 1935, and today almost all the provinces obtain substantial revenues from this source. But when the C. P. Government first sought to impose a tax on the sale of motor spirit in 1938, the Central Government challenged the right of the province to do so. The Federal Court, on a reference being made to it, upheld the right of the province to impose the tax. Since then most of the provinces have followed the example of the C. P. Government in imposing a tax on the sale of petrol. Tobacco is another article on which the selective sales tax has been imposed in many provinces. *Paucity of selective sales taxes may be easily explained. A provincial selective sales tax on the wholesale sale of articles may be easily evaded by arranging wholesale sales from a place far away from the location of the goods. Selective sales taxes on retail sales are very difficult and expensive to administer because retail sales of most articles are mixed up and scattered.

Sales Tax.

Two outstanding examples of comprehensive or general sales tax are the Madras General Sales Tax first imposed in 1939 and the Bengal Sales Tax first imposed in 1941. The basic feature of the Madras scheme is that it is a turn-over tax, i.e., all sales of goods are taxed. This means that an article may be taxed several times in the course of trade; it is in fact taxed as many times as it changes ownership within the province. The tax is, therefore, cumulative, or as it is popularly called, pyramidal. Though the rate of tax is small enough at a particular point, being $\frac{1}{2}$ per cent., the ultimate effect on the price to the consumer is very heavy. The Madras scheme exempts

the small dealers and certain selected articles, but there is no exemption of the necessities of life and no provision for safeguarding home industries against the adverse effects produced by the tax.

The Bengal sales-tax is a comprehensive tax, *i.e.*, a tax on the sale of goods in general. Unlike the Madras variety, the Bengal tax is a single-point tax and places the chief emphasis on retail sales. Unlike, again, the Madras scheme, the Bengal system exempts raw materials, exports, and a group of listed articles, consisting chiefly of primary necessities of life, and articles otherwise taxed.¹ The rate of tax originally was one quarter of an anna in the rupee, but it was raised by stages until it reached its present rate of 3 pice in the rupee in 1945. Some additional articles of consumption were brought under the purview of this tax in 1949, which caused considerable hardship to the poor and middleclass consumers. (Registration of dealers is the foundation of the scheme and the exemption of sales tax in the case of registered dealers is its basic principle.) An importer or manufacturer is liable to be registered when his annual gross turn-over exceeds Rs. 10,000. Any other dealer is liable to be registered when his annual gross turn-over exceeds Rs. 50,000. The sale by one registered dealer to another registered dealer is not taxed. It is only the last registered man in the chain from whom the tax is collected. The tax is, therefore, confined to a single point, and, in practice, though not in theory, a retail sales tax.

Its incidence is normally on the consumer and thus it is highly regressive in character. A selective sales-tax, from this point of view, is less objectionable than a comprehensive sales-tax.¹

Hardship on the poorer section of the community can, however, be minimised, even under a general sales-tax scheme, by suitable exemptions. The Bengal scheme has attempted to do it by exempting some necessities of life but unfortunately other necessities have been included. The superiority of the Bengal scheme over the Madras scheme is apparent. The Bengal scheme might have been improved by taxing the luxuries at a higher rate and giving the scheme a progressive

¹ Provincial taxation under autonomy by B. Das Gupta.

complexion. But it may be argued that this would have increased the administrative difficulties. Another objection to this tax is that the cost of collection of the tax is very heavy because of the inclination of the dealers to evade the tax. But, on the whole, it is a productive source of revenue and therefore is not likely to be easily abandoned by the States. The yield of the tax in undivided Bengal in 1946-47 was Rs. 3.60 crores and in the budget estimates for 1949-50, the revenue from sales-tax in West Bengal was placed at Rs. 4 crores. In the budget estimates for 1950-51 it has again been placed at Rs. 4 crores.

The real difficulty with regard to the sales-tax is that different provinces have different rates of tax. This diversity in methods and rates is a handicap to the normal flow of trade and leads to diversion of trade from its normal channel and to dislocation of labour and capital. But this difficulty can be overcome if all the provinces follow some uniform practice under central guidance. The sales-tax has been adopted in the fiscal systems of France, the U.S.A. and some other countries.

Whatever merits may be urged in favour of the sales tax it cannot be denied that it is an indirect tax and that its burden falls on the consumer. During the last 10 years the people of India have been groaning under the load of high prices, and it would be unfair to throw larger burdens on them. Besides, the sales tax, by raising prices, gives an impetus to the inflationary trend. One of the first duties of the Government should be to reduce inflation by every legitimate means but such an effort cannot prove successful, if prices are raised by the imposition of taxes which tend to raise prices. Looked at from this point of view the sales tax is an undesirable tax and should be abolished. The differences in the rates and the different systems of imposition in the different States are also bad features of the tax. These features, however, may be removed by making the levy the function of the Centre, the proceeds being distributed to the States on the principle of origin.

10. FINANCIAL INTEGRATION OF INDIAN STATES

Since the achievement of independence the former Indian States have been undergoing a transformation. A large number of them have either been merged in the Indian Provinces or

Former
Indian
States.

formed into Chief Commissioners' States. In the former case, they have lost their identity and have become parts of a Province and in the latter, they have become centrally administered areas. But where the States have continued by themselves, like Hyderabad or Mysore, or form separate Unions like Saurashtra, Madhya Bharat, Rajasthan, or Patiala and the East Punjab States Union, the problem of reorienting their financial relationship with the Centre has arisen. The Indian States Finance Enquiry Committee under the Chairmanship of Shri V. T. Krishnamachari was appointed in October, 1948, to examine the structure of public finance in these States and Unions of States and to advise on the problem of integration of 'federal finance' in the States. The recommendations of this Committee have, with minor agreed modifications, been accepted by the Government of India and the Governments of the States concerned. The scheme of integration, which has taken effect from the 1st April, 1950, places the States and Unions of States in the same position as the former Provinces *vis-a-vis* the Centre. The composite Governments of these States have been devised on a functional basis and the Centre has taken over the Central subjects and services from these States with the related assets and liabilities. But since some of these States were financing what might be called provincial services from the surplus of their revenue from Central subjects, some form of financial assistance to them to enable them to ride over the financial embarrassment was obviously necessary.

Following the recommendations of the Krishnamachari Committee, for a transitional period of ten years, the Centre has agreed to make good, with certain adjustments, to the States the difference between the actual federal revenue lost to them and the federal expenditure saved to them as a result of federal financial integration. This reimbursement will be made in full for the first five years and on a diminishing scale for the next five years. The Part II States (formerly known as Indian States) are now in the same position as the former Provinces (now called Part I States) in the matter of sharing divisible sources of revenue like income-tax, but any grant made to them to cover the federal revenue gap has been set off



against this share. States which are left with a surplus as a result of integration have been allowed to retain the surplus, but the Privy Purses of the former Rulers of these States will be recovered from them to the extent of this surplus. They will also get their appropriate shares of divisible heads of the Central revenue. It will be some time before the "revenue gap" of these States can be accurately determined but, on the basis of information now available, it appears that assistance will be necessary to Hyderabad, Travancore, Cochin, Mysore and Saurashtra, while Madhya Bharat, Patiala and East Punjab States Union and Rajasthan will not require assistance from the Centre. At the end of this period of ten years the whole matter would be subject to further review, but it may reasonably be expected that the States would be able to adjust their financial resources so that there would be little demand on the Centre.

The problem of financial adjustments has also naturally arisen in the case of the former Indian Provinces into which a large number of Indian States, of various sizes and in varying stages of development, have been merged. The Krishnamachari Committee did not go specifically into this question but dealt with the problem as it arose from the merger of Baroda in Bombay. The suggestion of the Committee that assistance should be given to Bombay on the same pattern as to the continuing States and Unions to meet the dislocation caused by federal financial integration has been applied uniformly to all the Provinces in which Indian States have been merged. As regards the States which have been constituted as Chief Commissionerships, the problem does not arise at all, as the Union Government is responsible for the federal as well as the provincial expenditure.

The assimilation of the former Indian States into the financial framework of the rest of the country marks an important stage in the development of federal finance in the country. The problem of bringing the large number of Indian States into the common stream of the country's economic and financial life, which has been defying solution so long, seems to have been successfully tackled.

W. Gov.

11. BUDGETARY POSITIONS OF STATES

(A) PART A STATES

The effect of the former Indian States (now called Part B States) mergers on the finances of the 'Provinces' (now called Part A States) is generally unfavourable, as revenue collections from merged areas are less than expenditure.

The financial positions of the Part A States may be appreciated from the table given below:

			(In lakhs of Rupees)	
			Surplus (+) or	deficit (-)
	Revenue	Expenditure	1950-51 B.E.	1949-50 R.E.
Madras	... 55,21	55,27	- 36	+ 53
Bombay	... 61,39 ¹	61,37	+ 2	- 1,17
West Bengal	... 33,90	35,23	- 1,33	+ 1,48
Bihar	... 25,90 ²	26,27	- 37	+ 8
Uttar Pradesh	... 52,26 ³	52,21	+ 5	+ 3
Madhya Pradesh	... 17,58	16,17	+ 1,41	+ 29
Punjab	... 16,64	16,16	+ 48	+ 1,41
Orissa	... 10,66	11,42	- 76	- 1,44
Assam	... 9,02	9,89	- 87	- 59
	<hr/> 282,56	<hr/> 284,29	<hr/> - 1,73	<hr/> + 2,47

Shares of
States in
Income-tax
revenue.

For 1950-51⁴ the respective percentage shares of the States of the income-tax revenue follow the Deshmukh Award and differ from those prevailing in 1948-49 and 1949-50. While West Bengal and East Punjab are given additional 1.5 units and 0.5 unit respectively. Uttar Pradesh, Madras and Bihar get 1.05 and 0.5 units less respectively. Nevertheless, these latter do not get less in absolute terms as the share of income-tax payable to the States in 1950-51 is placed higher at Rs. 48.08 crores than

¹ Including Rs. 4 crores in respect of transfer from Post-war Reconstruction and Development Fund.

² Inclusive of Rs. 200 lakhs transferred from Post-war Reconstruction Fund.

³ Inclusive of Rs. 260 lakhs transferred from Revenue Reserve Fund.

⁴ These shares are likely to continue in 1951-52.



for the earlier years. The following table gives the percentage allocations of income-tax for the different States.¹

State	Niemeyer Formula	Ad Hoc Arrangement after Partition	Deshmukh Award
Madras	15	18	17.5
Bombay	20	21	21
West Bengal	20	12	13.5
	(Bengal)		
Uttar Pradesh (U.P.)	15	19	18
Punjab	8	5	5.5
	(Undivided Punjab)		
Bihar	10	13	12.5
Madhya Pradesh (C.P.)	5	6	6
Assam	2	3	3
Orissa	2	3	3

The following Table gives the major heads of tax revenue of the Part A States²:

	1948-49 (In lakhs of rupees)	1950-51 (Budget)	Tax- revenue: main heads.
Customs Share or Jute Duty Subvention from the Centre	1,43	1,80	
Share of Income Tax from the Central Government	46,33	46,53	
Agricultural Income Tax	1,30	3,02	
Sales Tax	32,94	41,29	
Land Revenue	25,78	30,64	
Excise	34,32	24,92	
Stamps	16,31	17,56	
Total Tax Revenue	193,08	208,05	

¹ Reserve Bank Bulletin, April, 1950.

² For details see Appendix.



Major heads
of expen-
diture.

The following Table gives the major heads of expenditure¹:

(In lakhs of rupees)

	Direct de- mands on Revenue	Irri- gation	Security service	Social services	Debt services	Total Expen- diture
1948-49 ...	19,68	9,68	73,25	68,07	4,22	250,82
1950-51 ...	23,87	12,00	83,91	91,72	2,32	284,29
(Budget)						

(B) PART B STATES

The following Table gives the main heads of revenue and expenditure for 1950-51 (B.E.)²:

Revenue			Expenditure		
Customs ...	...	7,58	Direct Demands on		
Income Tax ...	...	1,56	Revenue ...	...	8,85
Land Revenue ...	...	16,55	Irrigation ...	...	1,94
Sales Tax ...	...	4,77	Debt Services ...	...	3,88
Excise ...	...	20,07	Security Services ...	...	22,35
Stamps ...	...	2,60	Social Services ...	...	32,28
Others ...	...	37,20	Others ...	...	21,53
Total ...	...	90,33	Total ...	...	90,83

Main
Revenue
Heads.

Of the total revenue of the States, two-thirds is tax revenue; of the non-tax revenue, Rs. 10.12 crores is by way of grants from the Central Government. The major contributions to tax revenue are from excise (mostly "Provincial") and land revenue, the respective percentage being 33 and 27 respectively. Land Revenue is the most important source of revenue for Saurashtra, Rajasthan and Madhya Bharat and excise is the main item for Hyderabad, Mysore, Travancore-Cochin and PEPSU. Of the total excise revenue of Rs. 20 crores, Hyderabad obtains as much as Rs. 9.86 crores or 49 per cent. Of total land

¹ For the details of expenditure on social services see Appendix.

² Reserve Bank Bulletin, June 1950.

revenue, Hyderabad's collections form 29 per cent., followed by Rajasthan's 23 per cent. The yield from excise is unimportant in Saurashtra. Travancore-Cochin collects only Rs. 63 lakhs in land revenue, though irrigation is the State's most important investment.

The yield from customs, though it is less than in 1949-50, is still substantial at Rs. 7.58 crores. Mysore, Saurashtra and PEPSU derive no customs revenue. Under the Cochin Harbour Agreement, Travancore-Cochin is entitled to one-third of the net collections up to a limit of Rs. 49½ lakhs from the import duties collected in Travancore ports and the customs duties collected at the port of Cochin, and to a further sum of Rs. 16½ lakhs up to a limit of Rs. 63 lakhs and to an additional 6 per cent. of the excess of receipts over Rs. 63 lakhs. For 1950-51 the net receipts under this agreement are placed at Rs. 66 lakhs. Internal customs duties yield as much as Rs. 377 lakhs or 23 per cent. of tax revenue to Rajasthan and substantial amounts to Hyderabad and Madhya Bharat. This source of revenue will disappear and Rajasthan, in particular, must seek for other revenue resources in its place. Of the total income-tax revenue of Rs. 156 lakhs, Rs. 81 lakhs is the share accruing to PEPSU, Rajasthan and Madhya Bharat from the Centre. The agricultural income-tax is levied only in two States, Travancore-Cochin and Hyderabad, and the yield is rather small in the latter.

The sales tax is still not a well-developed source of revenue in Part B States, forming as it does about 8 per cent. of the total tax revenue. On the other hand, for Part A States, apart from their share of income-tax from the Central Government, the sales tax is the most important single source of revenue, forming nearly 20 per cent. of the total tax revenue. The sales tax is levied in all the States, except Rajasthan. The collections are small in Saurashtra, PEPSU and Hyderabad where it has been introduced only recently. For Travancore-Cochin it is next in importance to excise. In the next four or five years, as customs revenue will decline, recourse must be had to the sales tax to make good the loss. While it may be expected that, unlike some of the Part A States, for some years at least, the Part B States will choose to retain 'provincial' excise at the



existing level, this cannot be a source of additional revenue. Nor is total land revenue likely to improve much, though a State like Travancore-Cochin can certainly increase its yield from this source. In due course, the States will obtain larger allocations from the Centre in respect of divisible taxes. Meanwhile, after ten years, 'revenue gap' grants from the Centre will disappear. Thus, it is necessary for the States to develop other tax resources, such as the agricultural income-tax.

Deficits
avoided
in most
A Group
States.

It may be recalled that the Central Government have been calling for some time past for an end of the era of deficit budgetting as a means of tackling inflation in India. But, in spite of their best efforts, only four out of nine Part A States (Provinces) have been able to avoid deficits.

Deficit in
West
Bengal's
budget.

Only one of the States, namely, Madhya Pradesh, expects a substantial surplus for 1950-51, and only one, West Bengal, shows a large deficit. But, as is well known, the difficulties of West Bengal are peculiarly great, not merely because it is a border State but also because it has been placed under special financial handicaps, because of the revision of its share of the divisible pool of the income-tax and of the deprivation of the jute export duty, while its additional liabilities due to Partition, particularly in regard to relief and rehabilitation of refugees, have enormously increased. It may be pointed out that the States have been able to achieve financial equilibrium after making all-round drastic economies. There has not been any fresh imposition of taxes in the States except in one State. Some states have made some adjustments in the existing taxes.

Financial
handicaps
of States.

Restrictions
as to the
imposition
of tax on the
sale or pur-
chase of
goods.

It should be borne in mind that the financial handicaps of the States in the new set-up are great. Sales tax has been, of late, one of the biggest sources of revenue in most of the States. But the new Constitution has placed limitations on the levy and extension of the sales tax by the States.¹ The tax on

¹ The Article 286, runs thus:

(1) No law of a State shall impose, authorise the imposition of, a tax on the sale or purchase of goods where such sale or purchase takes place—

(a) outside the State or

(b) in the course of the import of the goods into or export of the goods out of, the territory of India.

Explanation.—For the purpose of sub-clause (a) a sale or purchase shall be deemed to have taken place in the State in which the goods have



newspapers has also been taken over by the Centre. Thus the fiscal powers of the States have been curtailed under the new Constitution. The former "Indian States" had to fall in line with the former Indian Provinces by surrendering customs and other federal taxes to the Centre and by introducing such levies as sales tax, entertainments duty, etc. The financial results of mergers have not also been happy for many States (Provinces). The Centre has, no doubt, made special grants to the States on account of merger, but these grants have not generally been adequate to meet the special needs of the merged areas.) The curtailment of Central grants and subventions has also added to the financial difficulties of the States. Besides, Dr. Matthai's grant of income-tax relief at the expense of the shares of the State Governments has caused to them a substantial loss.

It is noteworthy that, even in the face of heavy odds, most of the States resisted the temptation of imposing fresh taxes to any great extent and tried to tide over their difficulties by making economies and drawing on accumulated balances. At the same time they have not been unmindful of their internal needs. They have continued the nation-building services and the execution of the schemes which are regarded as specially important.

Avoidance
of fresh
taxation.

An examination of the State budgets reveals a significant fact. It is true that some of the States have not yet tapped all the

actually been delivered as a direct result of such sale or purchase for the purpose of consumption in that State notwithstanding the fact that under the general law relating to sale of goods the property in the goods by reason of such sale or purchase passed in another State.

(2) Except in so far as Parliament may by law otherwise provide, no law of a State shall impose or authorise the imposition of, a tax on the sale or purchase of any goods where such sale or purchase takes place in the course of inter-State trade or commerce;

Provided that the President may by order direct that any tax on the sale or purchase of goods which was being lawfully levied by the Government of any State immediately before the commencement of the Constitution shall, notwithstanding that the imposition of such tax is contrary to the provisions of this clause, continue to be levied until the thirty-first day of March, 1951.

(3) No law made by the Legislature by a State imposing or authorising the imposition of, a tax on the sale or purchase of any such goods as have been declared by Parliament by law to be essential for the life of the community shall have effect unless it has been reserved for the consideration of the President and has received his assent.



Tax re-
sources
reach limit.

provincial sources of revenue. But, speaking generally, tax revenues in the provinces appear to have reached the limit of expansion. If the States are to be enabled to discharge their growing responsibilities, it is of the utmost importance that the proposed Finance Commission should evolve a better scheme of allocation of resources, so that the States may be in possession of adequate funds.

Reconstruc-
tion and
develop-
ment.

In November, 1948, as part of the anti-inflationary programme, a review of all development schemes was undertaken and high priority was given to schemes that were productive in the short run, particularly of food and other essential goods. The Provinces were also informed that they would not be reimbursed by the Centre for the entire expenditure on approved 'unproductive' development schemes but only to the extent of 50 per cent., subject to an over-all limit for each Province. However, budgetted expenditure on post-war development schemes (including Grow More Food schemes) was Rs. 116 crores in 1949-50, as compared with expenditure for 1948-49 of Rs. 75 crores. With the drastic reduction in Central grants and loans for development purposes after the devaluation of the rupee, the States have been compelled to drop several projects and curtail others already in execution. However, there are many schemes which are well advanced and ought to be completed, and others that are essential and must therefore be initiated. While a few States like Bombay and Madhya Pradesh have curtailed their expenditure on the development schemes, others like Madras and West Bengal have not done so.

Criticism
and sugges-
tion.

The system of financial allocation between the Centre and the States, which has just been adopted, has many defects and a few merits. The main defect is that, while a heavy and expanding burden of duties and responsibilities has been placed on the States, very few expansive sources of revenue have been allotted to them. It is unfortunate that "grants-in-aid"—which bless neither the giver nor the receiver and which were repeatedly condemned in the past and discarded—have again found an important place in the present financial system. The net result of this allocation is sure to be that the States will be financially weak and dependant on the mercy of the Centre.

Thus an undesirable situation will arise in which lack of funds will compel the States either to starve the all-important social services or to sacrifice their autonomy. The chief merit of the scheme is that it is not absolutely rigid, but possesses some measure of flexibility, so that in future the allocation may be adjusted to the relative needs of the Central and State Governments. Although the framers of the Constitution were unable to show adequate foresight, even their limited vision made them conscious of the possible growth of the financial needs of the States, in the near as well as the distant future. The Constitution, therefore, has left the future system of financial adjustment in the hands of Parliament after the period of transition. If future Parliaments can bring foresight, justice and impartiality to bear on the question of the distribution of financial resources, not only between the Centre and the States but also among the States *inter se*, the system will work well; otherwise it will lead to inefficiency, discontent and conflict. ✓

Handwritten notes:
~~but the~~
~~states~~
~~are~~ ~~to~~
~~from~~
~~the~~

PART II

MAINLY
CRITICAL AND CONSTRUCTIVE
[SOME ECONOMIC PROBLEMS]

CHAPTER XIV

LAND SYSTEMS

1. STATE-LANDLORDISM

As we have already seen, there is a tendency among Government officers to regard the Government as the ultimate proprietor of all lands, and to consider the revenue received by the State from the people as in the nature of rent. Attempts are often made to prove the correctness of the view by a reference to past history. The *Imperial Gazetteer* says: "Throughout the periods of native rule for which we have any historical data, the prevailing custom was for the cultivator to deal direct with the representative of the State, and the whole of the economic rent passed straight from the one to the other. Even when there was an intermediary and when that intermediary enjoyed, to a greater or less degree, the other incidents of proprietary right, he seldom received any substantial share of the profits of cultivation, and such dues as he might intercept would more fittingly be classed as *fees* or perquisites than as *rent* in the proper sense of the term. As the several provinces passed under British rule, the Government at first continued the native practice of taking as land revenue the whole or nearly the whole of the economic rent. When the intermediaries were few or weak, the Government dealt direct with the cultivator, *e.g.*, in raiyatwari tracts; where, on the other hand, the intermediaries were numerous and powerful, as in the zamindari tracts of Bengal, Bihar, and some of the other provinces, the Government dealt with these intermediaries, leaving them to collect the rents from the cultivators, and, when paying the proceeds to the State, to retain a small proportion, generally 10 per cent., for their own use. It is from this percentage that payments now representing the net rental have developed." It goes on to say: "The peculiarity of Indian rents lies, therefore, in this fact, that whereas in most countries the land revenue is an assignment from the rent made by the landowners to the

Tendency to regard Government as universal landlord.



"Government, in India the net rent is, historically speaking, a relinquishment of part of the profits of land by the Government to the landowners."

Legitimate conclusions from the theory.

If this theory of state-landlordism be correct, two results will legitimately follow—(a) the landlords will sink into the position of a merely superior kind of tenants, and (b) the Government will be justified in demanding as its revenue the whole of the economic rent.¹

Mr. Baden-Powell's view.

But whatever may be the historical value of such a theory, the Government has never put forward a claim to the ultimate proprietorship of all land and to its right to an economic rent. As. B. H. Baden-Powell, a great authority on the subject, says: "Nowhere and under no revenue system does the Government claim to take the unearned increment or the whole of what remains after the wages of labour or cost of cultivation and profits of capital have been accounted for."² The Government, as a matter of fact, bases its claim to land revenue on "the ancient right of the state to a share of the produce of the soil"—that is to say, on the historical fact that the rulers of successive Governments in India have at all times raised the greater part of their state income by levying a *tax* on the land.³

His standpoint.

Baden-Powell looks at the matter from a practical point of view. He observes: "The British Government has everywhere conferred or recognised a private right in land, and in large areas of country—Bengal, Oudh, and the whole of Northern India, for example—it has expressly declared the proprietary rights of the landlord and the village owners. It is, then, impossible to say broadly that the state takes a *rent* from the landholders regarded as tenants. The Government is certainly not owner. . . . The utmost it does is to regard the land as

¹ E. S. Montagu, in a lecture delivered at the Liberal Colonial Club, London, in February, 1914, said: "The Government of India has succeeded to the position of premier partner in the land, not only with the rights but the corresponding duties of that position. I have shown how, in areas under a temporary settlement, it has been able to take in the form of revenue a large share of the unearned increment from the land; this is, of course, devoted to public purposes, the benefit of which is ultimately shared by the agriculturists."

² Baden-Powell, *Land Systems of British India*.

³ This share usually varied from one-sixth to one-tenth during the Hindu period, but was liable to be increased in time of war or of special necessity. Akbar raised this share to one-third of the produce.



hypothecated to itself as security, in the last resort, for the land revenue assessed upon it." He adds in the same strain: "After the Government has so distinctly conferred proprietary rights in land, any later use of the term 'universal landlord' applied to Government can only be in the nature of a metaphor. The only function of a landlord that the Government exercises is the general care for the progress of the state, making advances to enable the cultivator to sink wells or effect other improvements, advancing money for general agricultural purposes, suspending or remitting the demand for revenue owing to famine or calamity of season." Baden-Powell gives his final decision in the following sentences: "The land revenue cannot, then, be regarded as a rent, not even in the raiyatwari lands. . . . I should be inclined to regard the charge as more in the nature of a *tax* on agricultural incomes."¹

The Land Revenue a 'tax'.

Regarded from this standpoint, then, the Government is not the ultimate proprietor of all lands. Now, the question arises, Can we point to any class which has absolute proprietary rights to the land? Perhaps it would be safe to answer that there are hardly any absolute proprietors in India, but that there are various grades of proprietary rights, each of a series of persons having some of the characteristics of a landowner.

No absolute property in land.

The proprietary rights may be divided into five main classes: Various grades of proprietary rights.

(i) The Government may be the direct owner.

(ii) The cultivator or landholder may be, for all practical purposes, considered as proprietor, paying revenue to the Government. This is the system which obtains in the raiyatwari tracts.

(iii) The Government may recognise one grade of proprietor between itself and the actual landholder. The most perfect example of this is found in the zemindar of Bengal.

(iv) The Government may recognise two grades of proprietors between itself and the actual landholder. This form is found in cases where the overlord's right has not developed so far as to make him sole landlord and all others mere tenants.

(v) The Government may recognise certain sub-proprietary rights, *e.g.*, *patni*, *dar-patni*, etc.

Land tenures in India are largely the result of changes and growths. It very often happened that one set of rights was

¹ Baden-Powell, *Land Systems of British India*.



superimposed upon another, and thus the various grades came into existence.

2. PERMANENT ZAMINDARI SETTLEMENTS

The early settle-ments.

During the early years of the East India Company's rule, the revenue settlement was made for very short periods, often for one year only. This system caused much inconvenience to the Government and great hardship to the people. The Directors of the Company realised the evils of the system, and in a letter to Lord Cornwallis they not only expressed their disapprobation of the frequent changes in the revenue settlements of Bengal, but condemned the endeavours which had been made to increase continually the land-tax. A remedy against famines, like the one of 1769-70 which carried off one-third of the population of Bengal and Bihar and turned large areas of cultivated land into wild jungle, was also greatly needed. Lord Cornwallis took up the idea of a permanent settlement which had been advocated by Philip Francis. Three possible methods of settlement in Bengal were open to the Government: (a) a settlement with the raiyats, (b) a settlement with the farmers of revenue, and (c) a settlement with the zemindars. Shore (afterwards Sir John, Governor-General of India) advocated the last method as being the only one consistent with good government and the improvement of the country.

Three possible methods.

The Per-
manent
Settle-
ment in-
troduced,
1793.
Objects.

The Permanent Settlement was introduced in Bengal in 1793, and extended to Banaras in 1795. In promulgating the measure, the Government had two objects in view: (1) the security of the revenue, and (2) the improvement of the land. The hope was entertained that if the land revenue were fixed in perpetuity, the landlord would have the greatest inducement to improve his estate in the knowledge that anything he could make from his estate over and above the land-tax would be his private property, and not subject to any imposition by the state. Further, it was expected that this act of generosity on the part of the Government would induce the landowner to be generous towards his tenants.

The prevailing opinion of officials in the early years of the nineteenth century was that the measure had been attended with great success. The Commissioners of the Agra province in



a circular letter said: "The Permanent Settlement concluded in the Bengal Provinces has notoriously been attended with the happiest success, and the flourishing state of those provinces must, we think, be ascribed, in an eminent degree, to that wise and salutary measure." They, therefore, recommended the extension of the measure to the Agra province. Many other officials also held the same view, and desired that the Permanent Settlement should be extended to the whole of India. But some officers of Government began to entertain doubts as to the results of the system.

Views of
earlier
officials.

The Sepoy Mutiny and the famine of 1860-61 gave rise to a prolonged discussion on the desirability or otherwise of introducing a permanent settlement into the United Provinces of Agra and Oudh. Sir Charles Wood, then Secretary of State for India, was greatly impressed by the arguments in favour of a permanent settlement and definitely accepted the policy. His successors in office also followed his policy, and in 1867 orders were actually issued for concluding such a settlement in the United Provinces of Agra and Oudh. For financial reasons, however, the plan could not be carried out at the time.¹

Not long after this, the official view underwent a change; and in the beginning of the present century there was almost a unanimity of opinion among officials regarding the failure of the system. The attitude of the Government towards the measure was clearly expressed in the Note on the Land Revenue Policy of the Indian Government, 1902, issued in reply to certain criticisms of the late R. C. Dutt. Some parts of the Note were in these terms: "The Government of India know of no ground whatever for the contention that Bengal has been saved from famine by the Permanent Settlement, a contention which appears to them to be disproved by history; and they are not, therefore, disposed to attach much value to predictions as to the benefits that might have ensued had a similar settlement been extended elsewhere." "As regards the condition of cultivation in Bengal there is still less ground for the contention that their position owing to the Permanent Settlement has been converted into one of exceptional comfort and prosperity. It is precisely because this was not the case, and so far from being

Official
attitude.

¹ P. N. Banerjea, *A History of Indian Taxation*.

generously treated by the zemindars the Bengal cultivator was rackrented, impoverished, and oppressed, that the Government of India felt compelled to intervene on his behalf." Further,

"As for the allegation that the Permanent Settlement has been the means of developing in Bengal an exceptional flow of public-spirited and charitable investment, while the Government of India are proud of the fact that there are many worthy and liberal-minded landlords in Bengal, as there are also in other parts of India, they know that the evil of absenteeism, of management of estates by unsympathetic agents, of unhappy relations between landlord and tenant, and of the multiplication of tenure-holders or middlemen between the zemindar and the cultivator in many and various degrees are at least as marked and as much on the increase there as elsewhere; and they cannot conscientiously endorse the proposition that, in the interest of the cultivator, that system of agrarian tenure should be held up as a public model, which is not supported by the experience of any civilised country, which is not justified by the single great experiment that has been made in India, and which was found in the latter case to place the tenant so unreservedly at the mercy of the landlord that the state has been compelled to employ for his protection a more stringent measure of legislation than has been found necessary in temporarily settled areas."

The experiment
a failure.

Independent
opinion.

Independent opinion is divided in respect of this question. One view is that it has most effectually safeguarded the economic welfare of the people. R. C. Dutt wrote: "If the object of the Permanent Settlement of 1793 was to create a thoroughly loyal class of landlords and a prosperous class of peasantry in Bengal, that object has succeeded beyond all expectation."¹ The earlier generations of Indian statesmen favoured this view; but the modern trend of Indian opinion seems to be to look upon the measure as a mistake. According to this view, it has deprived the state of the unearned increment of the land, and has not conferred a proportionately large benefit on the great bulk of the people. Some people think that it would have been an ideal measure if it had been introduced without the intervention of zemindars.

¹ R. C. Dutt, *Famines in India*.



J. S. Mill wrote: "The measure proved a total failure as to the main effects which its well-meaning promoters expected from it. They flattered themselves that they had created throughout the Bengal provinces English landlords, and it proved that they had only created Irish ones. They did nothing for the improvement of their estate, but everything for their own ruin. In one generation the ancient zemindars had ceased to exist, and other families, mostly the descendants of Calcutta moneylenders, now occupy their place, and live as useless drones upon the soil which has been given up to them. Whatever the Government has sacrificed of its pecuniary claims for the creation of such a class has at the best been wasted."¹ J. S. Mill's view.

A competent official critic observed: "It is true that the settlement may have apparently freed the Central Government for its wars in southern India, but that freedom was obtained at a heavy price in money and internal administrative tangles, that freedom was obtained, rightly or wrongly, at the expense of the proprietary classes then existing, and wrongly, without doubt, at the expense of the cultivator. The freedom gained by Government was merely temporary; the destruction of the proprietary classes was a permanent bequest to posterity; while the position of the cultivator has remained to this day one of the most difficult and insoluble of administrative problems."²

So much for the defects of the system; but it undeniably has one good feature. As J. S. Mill observed, "In this ill-judged measure there was one redeeming point. The ryots were reduced to the rank of tenants of the zemindar, but tenants with fixity of tenure. In the parts of India into which the British rule has been more recently introduced, the blunder has been avoided of endowing a useless body of great landlords with gifts from the public revenue; but along with the evil the good also has been left undone."³ One good feature.

¹ Vide J. S. Mill, *Principles of Political Economy*.

² F. D. Ascoli, *Early Land Revenue History of Bengal*.

³ James Mill, in his *History of India*, said: "Next after the sovereign the immediate cultivators had by far the greatest portion of interest in the soil. The generous resolution was adopted of sacrificing to the improvement of the country the proprietary rights of the sovereign. The motives to improvement which property gives, of which the power was justly appreciated, might have been bestowed upon those . . . from whom alone the principal improvements in agriculture must be derived, the immediate



The defects of temporary settlement system.

Practical solution: long-period settlements.

The zemindar's right to the soil.

The zemindar a limited proprietor.

Though the Permanent Settlement is open to objection, the system of temporary settlements is not without its defects. The latter not only involves expense and trouble, but the dislocation of business. It has, further, the tendency of checking the improvement of cultivation, and even of paralysing it by an uncertain and ever-increasing state demand. And the shorter the period for which settlements are made, the greater is the degree in which these evils appear. The only solution of the problem seems to be to make the settlements for fairly long periods, say, fifty years, so as to avoid the defects of both the extremes.

Before leaving this subject, a few words may be said about the zemindar's right to the soil. A considerable difference of opinion exists regarding the question whether the zemindars were originally landlords in the English sense, or only farmers and collectors of revenue. In the great Rent Case of 1865, an authoritative opinion was delivered by the Calcutta High Court, in which the judges held the view that the Bengal zemindars were, in their origin, not true landowners, but revenue-farmers. Some Indian statesmen, however, regarded them as having been real owners of the land, and, in some cases, rulers of portions of the province. The view of the Government of Bengal was clearly expressed in their letter to the Government of India, dated the 24th of June, 1901, in which they said, "But the truth probably lies between the position adopted by the advocates of the two sides of the question, and while there were large numbers of middlemen suddenly converted into landholders, there were also hereditary chiefs with all the attributes of proprietorship that were known in their time in India."¹

Thus whatever may have been the original status of the zemindars, in practice as well as in the eye of the law they are and must be regarded as actual proprietors of the land they hold, subject to the right of the Government to land revenue, and

cultivators of the soil. For the rights of the zemindars a complete compensation might have easily been made."

In England the land-tax was made perpetual in 1798, when William Pitt the Younger was the Prime Minister. According to R. C. Dutt, the English settlement had benefited the landed classes only, but the Bengal settlement conferred a share of the benefit on the agricultural community.

¹ *Note on the Land Revenue Policy of the Government, 1902.*



of the tenant to whatever rights are vouchsafed to him by law and custom.

3. LAND-REVENUE ASSESSMENTS

With reference to the land revenue, the tenures are divided into two kinds, *zamindari* and *raiyatwari*. When the revenue is assessed by the state on an individual or a community owning an estate and occupying a position identical with, or analogous to, that of a landlord, the assessment is known as *zamindari*; where the revenue is imposed on individuals who are, or who represent, the actual occupants of holdings, the assessment is known as *raiyatwari*. Under either system, there may be rent-paying sub-tenants. The former system prevails in almost the whole of Bengal, in the Uttar Pradesh, East Punjab, the Central Provinces, and some parts of Madras; while the latter is found in Bombay, Berar, and the greater part of Madras.

Zamindari
and
raiyatwari
tenures.

The Revenue Settlements may be either permanent or temporary. The permanently settled districts cover most of Bengal and parts of Madras and the Uttar Pradesh, while in the rest of India the settlement is for a period varying from ten to forty years. About 20 per cent. of the total area is held by permanently settled and 33 per cent. by temporarily settled *zamindari* proprietors; while the remaining 47 per cent. is held by temporarily settled *raiyats* (or, in some cases, by peasant proprietors).

The Revenue
Settle-
ments:
permanent
and tem-
porary.

The land revenue appears to the ordinary person to be a tax on rent. But Government officers hold a different view; they rather regard the rent as a deduction from the revenue.¹ The latter view cannot be regarded as correct from the standpoint either of theory or of history. Even at the present moment the Government do not claim that they are entitled to take the whole of the economic rent as land revenue. For practical purposes, therefore, this view is entirely devoid of substance.

Nature of
land
revenue.

Assessment methods vary according to the kind of estate and its mode of working. But two general principles are found to underlie these methods. One is to fix empirical rates, which are first ascertained only as maximum rates, on the basis of those actually paid in the past, but with such increase as can at the moment be taken with reference to the rise in prices and pro-

Principles
of assess-
ment.

¹ *Imperial Gazetteer of India.*



gress in prosperity, and then to apply those rates in a sliding scale, according to the productivity of particular lands. The other principle is applied to all varieties of landlord estate where there are tenants; it consists in finding out the rents which the tenants actually pay, and then demand from the landlords a fixed proportion of such rents.¹ Except in Bombay (where the assessment is not fixed in terms of the produce), the land revenue is assessed so as to represent a share, not of the gross, but of the *net*, produce (or net assets).

Assess-
ment
rates.

In the temporary zamindari settlements, the Government usually takes about 50 per cent. of the rent as revenue; and in the permanent settlements about 25 per cent. on an average. The rates of revenue vary greatly with the productive power of the soil, advantages of climate and irrigation, and facilities for marketing produce.

The
burden.

The burden of the land revenue is one of the most controversial questions in Indian economics and politics. Many of the Indian patriots hold that the burden is oppressive, that it is one of the causes of the extreme poverty of the masses of the people, and that it is a contributory cause of famines. On the other hand, the Government officers maintain that the land revenue is not excessive, and that it is becoming increasingly liberal.² The calculations given in Government publications

¹ B. H. Baden-Powell, *Land Revenue in British India*, pp. 47, 48.

² *Vide* R. C. Dutt, *Open Letters to Lord Curzon and the Land Revenue Policy of the Government of India*, 1902. A memorial was submitted by a number of retired high officers of the Government in which they urged that (i) where Land Revenue is paid directly by the cultivators the Government demand should be limited to 50 per cent. of the value of the net produce, after a liberal deduction for cultivation expenses had been made, and should not ordinarily exceed one-fifth of the gross produce; (ii) where the Land Revenue was paid by landlords, the principle adopted in the Saharanpur Rules of 1855, whereby the Revenue demand was limited to one-half of the actual rent or assets of such landlords, should be universally applied; (iii) no revision of the Land Tax of any province or part thereof should be made within 30 years of the expiration of any former revision; (iv) when such revision would be made there should be no increase in the assessment except in cases where the land had increased in value (a) in consequence of improvements in irrigation works carried out at the expense of the Government, or (b) on account of a rise in the value of produce; and (v) that a limit be fixed beyond which it might not be permissible to surcharge the land-tax with local cesses. The official reply to these recommendations was the following: (1) The suggestion that the land revenue should be fixed at a share of the produce was impracticable, and would, if accepted, lead to the placing of burdens on the shoulders of the people, from which, under a less rigid system, if sympathetically adminis-

regarding the burden of land revenue do not seem to have been arrived at after careful investigation, nor are they based on any definite principles. These calculations are, therefore, of no value to the student of economics.¹ In reality, land revenue is a heavy burden, and every effort should be made to reduce it.

4. TENANCY LEGISLATION²

The object of the tenancy laws of the Government in India is to protect the tenant against the effects of an unfair competition, and to secure to him the rights conferred by custom. As a large proportion of the population is connected with the land, a summary of the legislative provisions relating to it will perhaps be found useful.

Object of
tenancy
laws.

We have already seen that landlord and overlord rights grow up over, and often at the expense of, other rights in land. As

Origin of
tenures.

tered, they were exempt. (2) The Saharanpur Rules, issued in 1855 (so called because they were issued in connection with the resettlement of the land revenue in the Saharanpur district of the United Provinces), laid down "not that the revenue of each estate is to be fixed as one-half of the net average assets, but in taking these assets with other data into consideration, the Collector will bear in mind that about one-half, and not two-thirds as before, of the well-ascertained net assets should be the Government demand", and the Rules did not prevent them from demanding more than 50 per cent. (3) The considerations which determined the terms of settlement were: "Where the land is fully cultivated, rents are fair, and agricultural production not liable to violent oscillations, it is sufficient if the demands of the Government are re-adjusted once in thirty years, *i.e.*, once in the lifetime of a generation, and where the opposite conditions prevail, where there are much waste land, low rents, and a fluctuating cultivation, or again where there is a rapid development of resources owing to the construction of roads, railways, or canals, or to an increase of population, or to a rise in prices, the postponement of re-settlement for so long a period as thirty years is both injurious to the people, who are unequal to the strain of a short enhancement, and unjust to the general tax-payer, who is temporarily deprived of the additional revenue to which he has a legitimate claim." (4) To deny the right of the state to a share in the unearned increment of land would be to surrender to a number of individuals an increment which they had not themselves earned, but which had resulted partly from the actions of the Government and partly from a rise in the standard of civilisation. (5) The aim of local taxation was the benefit of the community, and to place an absolute limit to such taxation would be against the interests of the people.

¹ The figures of average incidence of revenue per cultivated acre are as follows: Bengal, Re. 1-2 as.; Bihar and Orissa, R. 0-10 as. 7 pies; Central Provinces, R. 1-1 a.; Punjab, R. 1-13 as.; Bombay, Rs. 2; Madras, Rs. 2-5 as.; United Provinces, R. 1-14 as. (*Vide Agricultural Statistics of India and Land Revenue Administration Reports*).

² *Vide* Baden-Powell, *Land Systems of British India and the Tenancy and Rent Acts of the different Provincial Governments*.



time goes on, some of the landlords become predominant, and the rest of the original landholders tend more and more to sink into non-proprietary cultivators or tenants. A certain number of such tenants, however, succeed in asserting themselves and securing from the landlords permanent tenures.

The twelve years' rule in Bengal and Agra province.

It is very difficult to draw a line between the tenants who represent the old landowners and those whose position is due to contract. In West Bengal and Uttar Pradesh, the legislature has avoided the difficulty by enacting a general rule that where any tenant has continuously held land in the same village for 12 years, he should be regarded in all cases as an Occupancy Tenant. In East Punjab and Oudh, however, the 12 years' rule does not apply; and in the Central Provinces the right of occupancy is granted to tenants irrespective of the length of occupation.¹ But in these provinces a number of privileged landholders is recognised as sub-proprietors. It should, however, be noted that the contents of the right of occupancy differ from province to province.

In West Bengal three classes of tenants:
(1) Tenure-holders,
(2) Raiyats,
(3) Under-ryots.

The tenancy law of West Bengal divides tenants into three classes: (1) tenure-holders; (2) raiyats; and (3) under-raiyats. The raiyats, again, are divided into (a) raiyats holding at fixed rates (that is, either at a rent fixed in perpetuity or a rate of rent fixed in perpetuity); (b) occupancy-raiyats, that is, raiyats having a right of occupancy in the land held by them; and (c) non-occupancy raiyats.

A tenure-holder is a person who has acquired from a proprietor or from another tenure-holder a right to hold land for the purpose of collecting rents or bringing it under cultivation by establishing tenants on it; and the term includes the successors in interest of persons who have acquired such rights.

A raiyat² is a person who has acquired the right to hold land for the purpose of cultivating it by himself or by members of his family, or by hired servants, or with the aid of partners; and the

¹ Central Provinces Tenancy Act, 1920.

² In determining whether a tenant is a tenure-holder or a ryot, the court shall have regard to (1) local custom, (2) the purpose for which the right of tenancy was originally acquired. Where the area held by a tenant exceeds 100 bighas, the tenant shall be a tenure-holder until the contrary is proved.



term includes the successors in interest of persons who have acquired such rights.

Under-raiyats are tenants holding land, whether immediately or mediately, under a raiyat.

In West Bengal, raiyats at fixed rates are the highest class of tenants, and have practically very much the same privileges as the tenure-holder. The rent cannot be enhanced, and the holder cannot be ejected, except for some express breach of the conditions of tenancy. All other privileged tenants are grouped together as occupancy tenants. The rest of the tenants are tenants-at-will, who have only the benefit of some protective provisions, *e.g.*, notice of ejectment of not less than six months, etc.

Privileges
of Ryots
at fixed
rates.

The existing tenancy law of West Bengal is based on the Bengal Tenancy Act of 1885, as amended in 1928 and 1938. The amending law of 1938 provides for the abolition of the landlord's transfer fee and his right to pre-emption; a right of pre-emption has, however, been given to co-sharer tenants of occupancy holdings. All provisions relating to enhancement of rent have been suspended for a period of 10 years beginning from the 27th August, 1937. There are other provisions also to give financial relief to agriculturists; for instance, the rate of interest on arrears of rent has been reduced from $12\frac{1}{2}$ to $6\frac{1}{4}$ per cent. per annum. The right has also been conferred on tenure-holders to surrender their tenures and under-raiyats to surrender their holdings.

Tenancy
(Amend-
ment) Act
of 1938.

The Agra Tenancy Act of 1926, which superseded the Act of 1901, made substantial alterations in the relations between landlords and tenants. Under the previous Act there were five classes of tenants—(a) permanent tenure-holders, (b) fixed-rate tenants, (c) ex-proprietary tenants, (d) occupancy tenants, and (e) non-occupancy tenants. Two other classes were added under the Act of 1926, viz., statutory tenants and heirs of statutory tenants. The first two classes are to be found only in the permanently settled districts. A fixed-rate tenancy is one which has been held by a tenant from the time of the Permanent Settlement at the same rate of rent. Such tenants have a right of occupancy at that rate. The right of occupancy arises when a tenant has held the same land continuously for a period of

Tenant
Law in
Agra
province,

12 years. Ex-proprietary tenants are occupancy tenants in their *sir* and in the land which they have cultivated continuously for 10 years at the date of the transfer. With regard to the enhancement of rent of occupancy holdings, fair and equitable standard rates are determined by the Government. The ex-proprietary tenants have a privilege in this that their rent is $12\frac{1}{2}$ per cent. less than the rate prescribed for occupancy tenants. Statutory tenants are those who were at the commencement of this Act tenants, but who did not fall into any of the above categories. Statutory tenants may also be admitted without the right of occupancy after the commencement of this Act if they cultivate the land of the tenure-holder's own holding. Such tenants are called statutory tenants because their rights arise from the provisions of the Act, and they are entitled to a life tenancy of the holding. No statutory rights accrue in favour of a sub-tenant. The heir of a statutory tenant is entitled to succeed to the tenancy, in the event of the death of the statutory tenant, until the expiry of the period of the lease or for a period of five years from the date of such death, whichever is longer. All other tenants are non-occupancy tenants.

in Oudh,

In Oudh, an attempt was at first made to introduce the policy followed in the Agra Province of ignoring the overlords and dealing with the villagers as proprietors, but after the Mutiny a settlement was made with the talukdars. This necessitated an elaborate series of provisions as to the protection to be afforded to tenants in the taluks. The rights of the tenants are recognised and protected by the tenant law of 1886 as amended by Act IV of 1921, which ensures permanent occupancy to hereditary tenants, and the limitation of their rents. Enhancement is possible only at times of settlement and in every tenth year of settlement. A Bill consolidating the tenancy laws of Agra and Oudh was passed by the United Provinces legislature in 1939. Two of the objects of this measure, *viz.*, the curtailment of the landlords' rights over *sir* (proprietor's own) lands, and procedural changes in favour of the tenant, aroused considerable discussion.

in Central
Provinces,

In the Central Provinces, the landowners or *malguzar* proprietors have a strictly limited control over a large part of the



tenantry, both as regards raising of rents and ejectment. Ejectment of the tenants of the privileged classes can only be effected by a decree of court on very special grounds, and enhancement of rent is restricted. The Central Provinces Tenancy Act mentions specifically *absolute occupancy tenants* who cannot be ejected for any cause whatever, and whose rent must be fixed for the term of settlement. The next class is that of the *ordinary occupancy tenants*. The rights of this class, however, are not growing as in Bengal and the Agra Province. Tenants holding land as a remuneration for village service are specifically recognised in this Act. Ordinary (that is non-occupancy) tenants are protected in various ways.

In East Punjab, the occupancy right is purely of natural growth. The Punjab law defines as *occupancy tenants* those who for two generations have paid neither rent nor service to the proprietor, but only shares of the land-revenue, those who are ex-proprietors, those who had settled along with the founder and aided in the first clearing, and those who had been revenue-assignees and had remained in possession of the land. These naturally-entitled classes are given different degrees of privilege.¹ in the Punjab, in Madras,

In Madras, every tenant is allowed to have whatever privilege he can prove. There is no artificial rule about the rate of rent or the limit of enhancement. All contracts, express or implied, are enforced. If there is no contract, the rate is to be that of the Government assessment, or, failing that, the customary rate of the locality. Tenants in general can only be ejected pursuant to a decree of court, but they can always relinquish the land at the end of the year.²

In Bombay, the holder of the land is either a direct occupant paying revenue to the Government, or is an inferior occupant paying rent to some superior. In the latter case, if there is an in Bombay,

¹ Punjab is mainly a land of peasant proprietors and rents are automatically adjusted to changes in the value of the produce. Alienation of land to non-agriculturists had been regulated for long in the Punjab and recent amendments to the Punjab Land Alienation Act provide for the cancellation of *benami* transactions, and for placing agriculturist money-lenders on the same disadvantageous footing as non-agricultural money-lenders.

² *Vide the Madras Estates Land Act, 1908, as amended up to 1936.* A committee in Madras reported (in 1938) that in the permanently settled tracts there should be a reversion to the rates of land revenue prevailing in 1802.



agreement, the terms alone determine the features, rent-charges, and liabilities of the tenancy; if not, then the usage of the locality is referred to.

in Bihar,

In Bihar, a tenant who has cultivated land in a village for 12 years is a settled raiyat, and every settled raiyat acquires occupancy right not only in respect of the land he cultivates for 12 years, but also in respect of other lands of which he may come into possession as a tenant. An occupancy holding is heritable, but under the 1938 amendment a tenant can divide his holding among his co-sharers and the landlord is bound to recognise such division. Under-raiyats have also been enabled to acquire occupancy-rights if they have cultivated land for 12 years as under-ryot.

in Orissa.

After the creation of the new province of Orissa, the principal changes introduced related to the abolition of landlord's transfer-fee and the granting of the right of tenants to trees in places where the settlement records are silent thereon. Both in Bihar and in Orissa, as is to be expected, there is a certain similarity with conditions in West Bengal, due to historical reasons.

After the advent of provincial autonomy, tenancy legislation was undertaken in all the provinces. But the condition of tenants has not yet improved to the desirable extent. More vigorous efforts should, therefore, be made now to improve their condition. Agriculture is the occupation of the bulk of the people of India, and no stone should be left unturned to improve the welfare of these who are connected with this primary industry. Legislative proposals should be based on principles of equity and justice to all classes of the population.

Floud
Commission.

A Land Revenue Commission was appointed in Bengal in 1938, with Sir Francis Floud as Chairman to examine the land revenue system of the province, with special reference to the Permanent Settlement. The Commission submitted its Report in 1940.

Majority
Report.

The majority of the Commission, after pointing out the grave defects of the Permanent Settlement, definitely expressed themselves in favour of its abolition. They argued that whatever might be said in justification of the Permanent Settlement in 1793, it was no longer suited to the conditions of the present time. A majority of the Commission also came to the con-

clusion that the Zamindari system had developed so many defects that it had ceased to serve the national interests. They maintained that the Permanent Settlement and the Zamindari system should be replaced by a Ryatwari system under which the Government would be brought into direct touch with the actual tillers of the soil. As the sole landlord the Government would be in a much stronger position than any private landlord for initiating various schemes of agricultural improvement.

The majority of the Commission further recommended that the State should acquire the interests of all grades of tenure-holders. They recommended payment of compensation at a flat rate for all interests, although, in strict theory, different rates of compensation for different classes of estates and tenures might be justified. The rate of compensation, they suggested, should be fixed at 10 or 12 or 15 times the net profits. Compensation should, in their opinion, be paid preferably in cash, and failing that, in bonds redeemable after 60 years. The Commission also favoured the inclusion of fishery and mineral rights in the scheme of State acquisition. The imposition of an agricultural income tax, as a transitional measure, until the scheme of State acquisition was effected, was also recommended.

The Commission, however, was not unanimous in its recommendations. Six members of the Commission, constituting a large minority, submitted four minutes of dissent in which the Majority Report was severely criticised. The dissenters argued that the existing decline of agriculture in Bengal was due to causes which were hardly connected with the land revenue system of the province. State acquisition of the various rights in the land, they held, was a hazardous experiment, involving huge embarrassing financial commitments, while the financial gains were uncertain and negligible. It was further contended that the Bengal raiyats were better off than the raiyats of the other provinces. The abolition of the Permanent Settlement was described as a measure which would be nothing short of a social revolution fraught with far-reaching consequences of a serious nature. The rate of compensation recommended was also condemned as inadequate and involving a degree of expropriation. They did not see any case for the purchase of fishery and mineral rights. They expressed the view that there was hardly

Notes of
dissent.



any public demand for the abolition of the Zamindari system and feared that income from land revenue would diminish and not increase as a result of the abolition of the Permanent Settlement.

As could only be expected, the Majority Report, which challenged the long-standing Permanent Settlement that had given rise to numerous vested interests, aroused a great controversy in Bengal. The Government of Bengal appointed Mr. Gurner to go into the financial implications of the scheme of State acquisition of Zamindari rights. Mr. Fazlul Huq, the then Premier of Bengal, decided to start with the experiment in certain selected districts. But nothing tangible materialised. The execution of the scheme was held up indefinitely by the fall of the Fazlul Huq ministry which came soon after the announcement, and also by the abnormal situation created by the War.

The present position in West Bengal with regard to this issue might be thus stated: Since the publication of the Land Revenue Commission's Report, the question of abolishing the Permanent Settlement has been a live issue before the Government and the people of the province. As a matter of fact, under the Muslim League Ministry in 1947 a comprehensive Bill for the acquisition of the rights of intermediaries and for the introduction of a new system of land tenure was introduced. On account of the partition of the province the Government decided to abandon the 1947 Bill and to explore the ground in the changed context. A Cabinet Sub-Committee was appointed to discuss a number of proposals on this question, and in the last budget Rs. 10,00,000 were provided for carrying on the preliminary work. The Government has not so far decided on any scheme for the acquisition of the right of the Zamindars.¹

¹ *Zamindari Abolition and Agrarian Reforms*, a pamphlet published by the Economic and Political Research Department, All India Congress Committee, p. 29.

The Hon'ble Mr. B. C. Sinha, Minister of Revenue, West Bengal, in the course of a statement on the 25th April, 1950, said that the Government of West Bengal were, therefore, working on the possibility of introducing the scheme in certain selected areas at first and the Sunderban Development Committee was asked to work out details of the implementation of the scheme in the Sundarban area. It was expected that the report of the Sundarban Development Committee would be ready shortly.

The attitude of the Congress towards this question may be briefly stated here. Ever since the Indian National Congress became a mass organisation, it pledged itself to ameliorate the condition of the peasantry by reforming the land system. In 1937, when the Congress Party came into power in many Provinces tenancy laws were reformed. It became gradually clear, however, that what was needed was not a reform of, but a revolutionary change in, the land system. So in the Election Manifesto of 1945 it was stated: "The reform of the land system, which is so urgently needed in India, involved the removal of intermediaries between the peasant and the State. The rights of such intermediaries should, therefore, be acquired on payment of equitable compensation." In pursuance of the Congress Election Manifesto some of the provinces have passed, and others have introduced, or are contemplating introduction of, Zamindari Abolition Bills. The implementation of zamindari abolition is, thus, in varying stages in different provinces. But the Government of India in pursuance of its anti-inflation Policy cautioned the Provincial Governments that, in the present circumstances, they could expect no financial assistance from the Centre in the implementation of the plans for the abolition of Zamindari and, further, that in trying to finance the cost of these schemes they should see that the Centre's borrowing programme was not affected.

The question of land reform was discussed in the recent Conference of the Provincial Finance Ministers. It was revealed at the Conference that the provinces were very keen on going ahead with the programme of abolition of Zamindari and it was agreed not to postpone the measure, but the provinces were

Congress
Election
Manifesto.

Views of
Provincial
Finance
Ministers'
Conference.

The reasons for selecting the Sundarban area as one of the areas where this experiment is first to be tried are:—

- (1) This is a very backward area where improvements are urgently called for.
- (2) There are not many different grades of rights and interests and this renders the task of abolition easier.
- (3) There has been a revision of the record-of-rights in this area very recently.
- (4) Tentative calculations disclose that if the scheme is given effect to this area, the Government will get a handsome surplus, out of which we expect to pay compensation in cash on the lines suggested by the Government of India.



urged to regulate the process of implementation so as not to place any undue financial strain on the existing financial position of the country.¹

Zamindari
Abolition
Acts.

Bihar.

In Bihar, the Land Reform Bill passed by the legislature received the assent of the President on September 11, 1950, the provisions of which are as follows: the proprietor or tenure holders' interest in the estate or tenure and any building used primarily for collection of rents, fisheries, hats, bazars, mines and minerals should vest in the State, all estates or tenures acquired would be managed by the Government, the compensation would vary inversely with the size of the net income from three to twenty times the net income according to the table as given in the Bill, compensation would be payable in cash or in bonds of guaranteed full value at maturity, or partly in bonds and partly in cash. The financial implication involved would be about Rs. 126 crores. The Bill came into effect on the 25th September, 1950.²

Madras.

The Madras Legislative Assembly also passed a Madras Estates Abolition and Conversion into Ryotwari Bill in 1949. Under its provisions, the entire estate would stand transferred to the Government and vest in them free of all encumbrances. Compensation payable to the landholder should be in a graded scale as fixed multiples of the basic annual sum. To arrive at the basic annual sum, the zamindari rents were first of all to be converted to ryotwari levels. Scales of compensation varying from 12 to 30 times the basic annual sum was laid down. The manner of calculating the basic annual sum was also specified.

Measures of
legislation.

But the Bihar and the Madras measures of legislation have presented only the negative aspect of the abolition of zamindari and do not hold up any picture of the post-abolition land reforms.

¹ *Zamindari Abolition and Agrarian Reforms*, a pamphlet published by the Economic and Political Research Department—All India Congress Committee.

² Simultaneously with the publication of the Gazette notification, *Searchlight* published a Government advertisement which gave the schedules of estates of Maharajadhiraj of Darbhanga and Raja Bahadur of Ramgarh which had passed to and became vested in the State of Bihar. The two landlords appealed to the Court, and the whole matter is under litigation.

The Assam Bill for abolition of Zamindari has envisaged the acquisition of all rights and interests of the proprietors or tenure holders in the estate. The manner in which net income and gross would be computed has been elaborately defined and compensation scales have been laid down, varying from 3 to 10 times the net income. The mode of payment of compensation will be partly in cash and partly in bonds. The entire amount in some cases may be paid in cash. Assam.

The government of Uttar Pradesh appointed a Zamindari Abolition Committee which recommended the acquisition by the State of all intermediary rights. Some categories of land in the personal cultivation of the landlord would be retained by him. The scales of compensation would vary from 8 to 25 times the net assets, for which a basis of compensation was laid down. The payment would be made partly in negotiable bonds and partly in fixed deposits with a Co-operative bank. Uttar Pradesh.

A Bill was subsequently framed in Uttar Pradesh and passed by the legislature. The objective of the Abolition of Zamindari Act was declared to restore to the cultivator the rights and the freedom which were his, and of which he was deprived by the British for reasons of expediency and administrative convenience. The Act contemplated two main forms of land tenure in the future, Bhumidars and Sirdars. It is expected that the vast majority of cultivators will become Bhumidars either in their own right or through their contribution to the Zamindari Abolition Fund. Tenants have been asked to contribute to this fund voluntarily, up to 10 times their rent, so that the State government may be able to pay the compensation in cash. It is claimed that this device of voluntary contributions will provide finance for the speedy abolition of the Zamindari system and would also check inflation. The status of Bhumidars will be given to these tenants.

But unfortunately the voluntary contributions up to date have not been very satisfactory. Mr. Guru Narain belonging to the Democratic (Zamindars) Opposition in the U. P. Legislative Assembly contended that during the recent Zamindari Abolition Fund drive, the government officers had used all sorts of coercive methods to compel the peasants to contribute. He urged that the Compensation Commissioner as provided in the



Madhya
Pradesh.

Act for the assessment and payment of the compensation should be a High Court Judge.¹

In Madhya Pradesh, the State passed the Madhya Pradesh Agricultural Raiyats and Tenants (Acquisition of Privileges) Act, 1950 to pave the way for the conferring of malik-makbuza rights in Central Provinces and in the merged territories in favour of tenants and raiyats, and the conferring of the right of occupancy on tenants in Berar. This measure is considered necessary to bring together the scattered surplus purchasing power of the tenantry and raiyats into a pool, to be utilised for payment of compensation to the intermediaries on the enactment of the Abolition of Proprietary Rights Bill.

The Madhya Pradesh Abolition of Proprietary Rights Bill provides that compensation may be paid in cash in full or in annual instalments, not exceeding thirty, or in negotiable or non-negotiable bonds maturing within a specified period not exceeding thirty years.²

Zamindari
Abolition
and Infla-
tion.

Sir Chintamon Deshmukh, then Governor of the Reserve Bank of India, sounded in 1948 a note of warning as regards the inflationary possibilities involved in the payment of the huge compensation that would be necessary to pay out the zamindaris. Payment in cash by issuing a bond loan was out of the question and hence payment partly in the form of bonds would be adopted in most cases. If the zamindars were paid in terms of the bond-loans, he said, and if the bonds were transferable, that would aggravate the inflationary tendencies already present in the country and the fall in their price, through the security market being over-saturated with them, would raise the cost of government borrowing in the future. Government credit would not also be kept unimpaired by making the bonds non-transferable, for this would not diminish the liability of the Government.³

¹ *The Statesman*, July 13, 1950. On the question of Zamindari abolition Sir Jagdish Prasad addressing the Unao District Zamindars Conference, said: "It is likely that the abolition of the zamindari system far from solving the agrarian problem may disrupt village life altogether."

² Reserve Bank of India, *Bulletin*, June, 1950, p. 388.

³ Speech by Sri Chintamon Deshmukh before the 14th Annual General Meeting of Shareholders of the Reserve Bank, 1949.



The subject has been ably and fully discussed by the Reserve Bank of India and their summary and conclusions are as follow:—

Reserve
Bank's
views.
Financial
Implica-
tions.

1. The zamindari system is proposed to be abolished over an area exceeding 1,700 lakh acres of land in the seven States of Madras, U. P., Bihar, Madhya Pradesh (excluding merged territories), West Bengal, Orissa and Assam.

2. No attempt is made to discuss what constitutes compensation, especially fair compensation. On the other hand, the compensation provided or proposed to be provided by the various States, or roughly estimated on the basis of the meagre information available, has been accepted as the basis of discussion.

3. The total compensation cost in the seven States is estimated at Rs. 414 crores and the increase in revenue to the Governments concerned at Rs. 19.5 crores per annum which is over 4.7 per cent of the compensation to be paid.

4. Payment of the entire amount or a substantial part of the compensation in cash or in negotiable bonds at the present juncture is impracticable, excepting perhaps in the case of Madras.

5. A consideration of the methods for financing the abolition of zamindaris leads to the conclusion that the main part of compensation will have to be paid in the form of annuities or non-negotiable bonds. It may be possible to give some option to the zamindars in respect of the form of compensation as between these two alternatives.

6. Under the abolition schemes the zamindars would be allowed to retain *sir* and *khudkasht* (private) land and continue to enjoy income from it. The number of zamindars without such land is not expected to exceed 10 per cent. of the total. It may be possible to arrange cash compensation for this class of zamindars, as also a small fraction in cash in respect of the zamindars, with contribution from tenants towards acquisition of ownership rights or with a general levy on the beneficiaries from this agrarian reform to help defray the cash compensation. Otherwise the cash compensation may have to be reduced.

7. For payment by annuities, the balance compensation, or such proportion of it as may be taken up by the zamindars in this form, may be amortized and payment made in equal

instalments every year. The rate of interest allowed for in calculating the amortization amount may be $2\frac{1}{2}$ or 3 per cent. It would be possible to meet this expenditure from the additional revenue accruing to Governments. Except for small adjustments, the number of years for which annuities shall have to run would be 15 years in the case of Orissa, 20 years in the case of West Bengal, 25 years in the case of U. P. and 30 years in the case of Bihar, Madhya Pradesh and Assam.

8. The maturity of the non-negotiable bonds should be suitably spaced to avoid undue hardship to the zamindars. To avoid rush for bonds with early maturity, the maximum proportions in which each type of bond might be taken up may be prescribed.¹

But apart from the financial aspect of the question, the subject deserves to be considered with the greatest care from the standpoint of the well-being of the nation as a whole. The zemindari system has very few supporters outside the ranks of the Zemindars themselves. But there was a time when the Zemindars played a very useful part in society. They used to dig tanks, sink wells, plant trees, build dams, and construct roads. They rendered services to agriculture in a variety of ways, *e.g.*, by supplying the tenants with seeds and manures and assisting them with funds for cultivating their fields. They also started and maintained schools, hospitals and dispensaries for the benefit of their tenants and often functioned as law-courts for the settlement of disputes. They organised fairs, festivals and religious ceremonies, from which the villagers derived pleasure and happiness. The Zemindars were the natural leaders of the people and stood forth as their protectors in times of danger and difficulty. As a consequence, they enjoyed the affection and regard of the rural folk. But the situation has now completely changed. Absenteeism, rackrenting and oppression by the Zemindar's agents prevail everywhere, and the Zemindars are no longer loved and respected. The zemindari system is, therefore, doomed. But the abolition of the zemindari system need not be accompanied by the bestowal of the absolute ownership of the land on the cultivators. Peasant-proprietor-

¹ Reserve Bank of India Bulletin, June, 1950, p. 393.

ship has some undoubted merits ; it rouses the keen interest of the cultivators in the lands they till and gives self-respect and a spirit of independence to them. But peasant-proprietorship is good only for small-scale agriculture. In India, however, a great increase in agricultural production will be needed in the immediate future for providing food to the large and growing population of the country. For this purpose, small-scale farming, with small holdings and little capital, will be absolutely inadequate, and large-scale production with scientific knowledge, mechanised equipment, large capital and proper organisation, will be needed. It may be urged that cooperation among small farmers would be a way out of the difficulty. But up till now, the co-operative movement has not proved such a success as would entitle us to build much hope on it. State ownership is another solution, but it is not free from defects. The whole matter should, therefore, be considered, not only from the theoretical, but also the practical, point of view, and undue haste should be avoided in a matter of such grave importance. If a wrong step is taken now, it would be an exceedingly hard task to prevent its evil consequences and to take a fresh step in future. It is easy to destroy, but difficult to construct.

CHAPTER XV

FAMINES AND SCARCITIES

I. HISTORY

History of
famines:
Hindu
period.

DURING the Hindu period of her history, India did not enjoy absolute immunity from famines. But judging from the infrequency of allusions to these calamities in the ancient Sanskrit works, as well as the testimony of foreign travellers,¹ it would not be unsafe to make the assertion that famines were exceptional occurrences in ancient India. When they did occur, adequate relief measures were undertaken by the state. Kautilya, in his *Arthasastra*, mentions the following among other remedial and relief measures: (i) remission of taxes, (ii) emigration, (iii) the granting of money and grain from state funds, (iv) construction of artificial lakes, tanks, wells, etc., and (v) the importation of grain from other places.²

Mahomedan
Rule.

The historians of the Mahomedan period left records of several famines, four of which were very severe. The first occurred in 1343, when the well-meaning but half-insane Muhammad Tughlak was the sovereign of Northern India. The distress was of a most acute character, but the Sultan was not slow to organise relief measures on an extensive scale. He "ordered provisions for six months to be distributed to all the population of Delhi".³ During the reign of Akbar, "there was a scarcity of rain throughout the whole of Hindustan, and a fearful famine raged continuously for three or four years." The Emperor ordered that alms should be distributed in all the cities; and Nawab Sheikh Farid Bokhari, being ordered to superintend and control their distribution, "did all in his power to relieve the general distress of the people."⁴ The fifth

¹ Megasthenes says: "Famine has never visited India and there has never been a general scarcity in the supply of nourishing food" (McCrindle, *Ancient India as described by Megasthenes and Arrian*).

² Kautilya, *Arthasastra*, bk. 4; chap. 3.

³ "The Judges, Secretaries, and other Officers inspected all the stores and markets, and supplied to every person provisions for half a year" (Elliott, *History of India*).

⁴ Dowson, *History of India*.

year of the reign of Shah Jehan witnessed one of the greatest famines recorded in history. It afflicted almost the whole of India, and, in spite of the vigorous measures of relief adopted by the Emperor, a prodigious mortality ensued. There was another great famine in the reign of Aurangzebe. James Mill thus writes of the measures adopted to cope with this calamity: "The prudence of Aurangzebe, if his preceding actions will not permit us to call it his humanity, suggested to him the utmost activity of beneficence on this calamitous occasion. The rents of the husbandmen, and other taxes, were remitted. The treasury of the Emperor was opened without limit; corn was bought in the provinces where the produce was best, conveyed to those in which it was most defective, and distributed to the people at reduced prices."

During the rule of the East India Company, "India suffered, in one part or another, from twelve famines and four severe scarcities."¹ The first of these was the dreadful calamity of 1770, "by which more than a third of the inhabitants of Bengal were computed to have been destroyed."² Although signals of the impending disaster had been received in 1769, nothing had been done to check the famine, and even when distress became acute, no relief measures on an adequate scale were adopted.³ In Madras, 1781 and 1782 were years of severe scarcity; and in 1784 a severe famine devastated the whole of Northern India. A drought in Madras and Hyderabad in 1791 was followed by an intense famine the next year. It was on this occasion that relief-works were first opened by the Madras Government for the support of the famine-stricken. In 1802-03 a failure of rains led to famine in Bombay and scarcity in Madras, which were followed the next year by a widely extended famine in the North-Western Provinces and Oudh (now called Uttar Pradesh). The measures adopted on this occasion consisted in making remissions of the revenue, in giving loans and advances to landowners in offering a bounty on all grain imported into Banaras, Allahabad, Kanpur and

East India
Company's
Rule.
1770.

1784.

1792.

1802-03.

¹ *Report of Famine Commission*, 1901, p. 1.

² James Mill, *History of India*.

³ The price of common rice rose from 40 seers per rupee to 3½ seers. In the plentiful year of 1714, coarse rice was sold at 120 seers the rupee, and wheat at 90 seers. *Vide* Col. Baird Smith's *Report*, Sect. II, p. 29.



Fatehgarh. In 1806-07, there was a severe scarcity in some districts of Madras.¹

1833. * The next great famine was that of 1833, known as the 'Guntur famine'. It affected the northern districts of Madras, and parts of the Southern Mahratta country and of Mysore and Hyderabad. The severity of the calamity was not recognised by the Government till it was too late, with the result that 200,000 persons died in Guntur out of a population of 500,000.²
1837. In 1837 there was a severe famine in Upper India. Public works were opened at several centres, but the work of relieving the helpless and the infirm was left in the hands of the charitable public. The mortality was great, and the extremity of suffering endured by the people was such as to leave behind a wide-spread and lasting recollection of the horrors of the calamity.³
1854. In 1854, a famine, severe, though limited in area, visited Northern Madras.

Direct
British
adminis-
tration.
1860-61.

Since the transfer of the administration of India from the Company to the Crown, there have been ten important famines, besides a large number of severe scarcities. The first famine occurred in 1860-61, the chief area affected being that between Delhi and Agra. This was the first occasion in British India on which poor-houses were used as a means of relief; and it was also the first time when the authorities thought fit to enquire into the causes, area, and intensity of the famine, as well as the measures to be adopted to cope with distress, Col. Baird Smith being placed on deputation for the purpose. A drought in 1865 was followed the next year by a severe famine. The calamity fell with the greatest intensity on Orissa, hence its name, the 'Orissa famine'; but it also affected Madras, Northern Bengal, and Bihar. The Government officers, although forewarned, took no steps to meet the approach of the calamity, so that when it came they were absolutely helpless.

1868. It was estimated that about a million persons died in Orissa

¹ This scarcity gave the occasion for a discussion regarding interference with private trade. The Government at the outset declared against any interference, but in the end they conceived it necessary to purchase grain, guaranteeing a minimum price to importers. The principle of non-intervention in trade was followed in 1812-13 and 1824-25.

² *Report of Famine Commission, 1880.*

³ *Ibid.*, 1880.

alone. A year had hardly elapsed before Northern and Central India was visited by one of the most wide-spread and grievous famines on record. The conditions were the worst in Rajputana and Central India, where there was an entire loss of crops as well as of fodder and grass, besides a dearth of water; and, to add to the miseries of the people, an epidemic of cholera broke out and spread in all directions. Prompt action was taken by the Government to relieve distress, but the relief given was hardly commensurate with the magnitude of the distress, and there was considerable loss of life.

In 1873, Bihar and the eastern districts of Uttar Pradesh 1873. were afflicted with a famine. The Bengal Government, however, took prompt action and carried out relief measures on a scale and with a thoroughness which had never been equalled before. The total cost of the relief measures amounted to nearly 10 crores. The great famine of 1876-78 was, in respect 1876-78. of the area and the population affected, as well as the duration and the intensity of the distress, the most grievous calamity experienced since the beginning of the nineteenth century. It affected Madras, Bombay, Uttar Pradesh, and the Punjab. The relief measures on this occasion were insufficient and imperfectly organised. The Government refused to recognise their responsibility for saving human lives, and declared with cynical calmness that "the task of saving life, irrespective of cost, is one which is beyond their power to undertake, and that in the interests of the distressed population itself, as well as of the taxpayers generally, the Government of India was bound to adopt precaution against indolence or imposition."¹ Small wonder that a fearful mortality was the result of the adoption of such a policy!

Between 1878 and 1896, there were two famines and five scarcities, all of them of a more or less local character. The great famine of 1896-97 affected almost every province, though in 1896-97. varying degrees of intensity, the population sorely afflicted being estimated at 34 millions. In addition to the opening of public works at various centres, gratuitous relief was given extensively, and in many parts of the country people were relieved in their

¹ *Report of the Famine Commission, 1901.*



own homes. The relief operations were conducted with a fair measure of success, except in the Central Provinces, where the death-rate rose very high above the normal.¹ The total cost of relief measures was 7.27 crores.²

1899-1900.

Following closely upon this came another calamity of the severest type, namely, the famine of 1899-1900. The area and the population affected were, roughly, 189,000 square miles and 28 millions respectively. The authorities failed and, in some cases, refused to open relief works in the early stages of the famine; and when they were opened such vast numbers came on them that the system almost completely broke down in many cases. The total expenditure amounted to 10 crores, and the excess of mortality over the normal was 1,236,855. A large number of famines and scarcities of a local character occurred between 1901 and 1941, those of 1906-07 and 1907-08 being the most important.

1906-07.
1907-08.

Responsi-
bility of
Provincial
Govern-
ments.

As a result of the constitutional changes, effected in 1919, the principal responsibility for the relief, as well as for prevention, of famines fell on Provincial Governments. Since the Montagu-Chelmsford Reforms came into operation every province had to maintain a Famine Insurance Fund, the amount depending upon the liability of the province to the occurrence of famines and the extent of relief that might be required. In some cases, *e.g.*, irrigation and control of floods, inter-provincial co-operation would be essential. Some of the fundamental causes of famines pointed out before could, however, be remedied by concerted action taken by the Central Government and the Provincial Governments. It should be remembered in this connection that the Central Government was still responsible for guiding India's fundamental economic policy and institutions, *e.g.*, banking, railways, currency, exchange, tariffs, etc. It was hoped that the transfer of political power to popular ministers in the provinces and in the centre would before long result in a scientific and planned drive against poverty, famine, and scarcity. This hope, however, was not realised.

¹ *Report of the Famine Commission, 1898.*

² "Relief was given to 821 millions of persons at an average cost of 1.42 annas a day for each person relieved." (*Report of the Famine Commission, 1898*).

2. THE BENGAL FAMINE OF 1942-43

The crisis in Bengal which developed gradually into the Great Famine of 1943 began towards the end of the year 1942. The demand for food for the military forces and the civil employees of the Government as well as for the industrial population in Calcutta and its neighbourhood grew immensely after the beginning of the War, but the supplies did not increase proportionately. The shortage of supplies became acute in Greater Calcutta early in 1943. Distress developed slowly but steadily in other parts of Bengal until the entire province was under the grip of a terrible famine which raged unabated until the harvesting of the *aman* crop in December, 1943. This great disaster was to a large extent a man-made famine, the like of which has rarely been witnessed anywhere in the world. A Commission, with Sir John Woodhead as its Chairman, was appointed in 1944 to investigate the causes and effects of the Famine and other relevant matters and to make recommendations for the prevention of such disasters in future.

Woodhead
Commission.

The recommendations of the Commission have been summarised as follows:—

Recommendations.

"1. The economic level of the population previous to the famine was low in Bengal, as in the greater part of India. Agricultural production was not keeping pace with the growth of population. There was increasing pressure on land which was not relieved by compensatory growth in industry. A considerable section of the population was living on the margin of subsistence and was incapable of standing any severe economic stress. Parallel conditions prevailed in the health sphere; standards of nutrition were low and the epidemic diseases which caused high mortality during the famine were prevalent in normal times. There was no "margin of safety" as regards either health or wealth. These underlying conditions, common indeed to many other parts of India, were favourable to the occurrence of famine accompanied by high mortality.

Background.

2. Shortage in the supply of rice in 1943 was one of the basic causes of the famine. The main reason for this was the low yield of the *aman* crop reaped at the close of 1942. Another reason was that the stocks carried over from the previous year (1942) were also short. The *aman* crop reaped at the end of

Basic
causes.



1940 was exceptionally poor and in consequence stocks were heavily drawn upon during 1941. The *aman* crop reaped in December, 1941 was a good one, but not so good as to enable stocks to be replenished materially. After the fall of Burma early in 1942, imports from that country ceased, but exports from Bengal to areas which were more seriously dependent on imports from Burma, increased during the first half of the year. This also contributed to some extent to the smallness of the carry-over from 1942 to 1943. Again, during 1943 the loss of imports from Burma was only partially offset by increased imports from other parts of India. It appears probable that the total supply during 1943 was not sufficient for the requirements of the province and that there was an absolute deficiency of the order of 3 weeks' requirements. This meant that even if all producers sold their entire surplus stocks without retaining the usual reserve for consumption beyond the next harvest, it was unlikely that consumers would have secured their normal requirements in full.

Failure of
aman crop.

In the summer of 1942, that is, some months before the failure of the *aman* crop in Bengal, a situation had arisen in the rice markets of India, including those in Bengal, in which the normal trade machinery was beginning to fail to distribute supplies at reasonable prices. This was due to the stoppage of imports of rice from Burma and the consequent transfer of the demands of Ceylon, Travancore, Cochin, and Western India, formerly met from Burma, to the markets in the main rice-producing areas of India. Other circumstances arising out of the war also accentuated the disturbances to normal trade. In Bengal, owing to its proximity to the fighting zone and its position as a base for military operations in Burma, the material and psychological repercussions of the war on the life of the people were more pronounced in 1942, and also in 1943, than elsewhere in India. The failure of the *aman* crop at the end of 1942, in combination with the whole existing set of circumstances, made it inevitable that, in the absence of control the price of rice would rise to a level at which the poor would be unable to obtain their needs. It was necessary for the Bengal Government to undertake measures for controlling supplies and ensuring their distribution at prices at which the poor could

afford to buy their requirements. It was also necessary for the Government of India to establish a system of planned movement of supplies from surplus to deficit Provinces and States. There was delay in the establishment by the Government of India of a system of planned movement of supplies. The Bengal Government failed to secure control over supply and distribution and widespread famine followed a rise of prices to abnormal levels from five to six times the prices prevailing in the early months of 1942. This rise in prices was the second basic cause of the famine. Famine in the form in which it occurred, could have been prevented by resolute action at the right time to ensure the equitable distribution of available supplies.

3. When the price of rice rose steeply in May and June, 1942, the Government of Bengal endeavoured to bring the situation under control by the prohibition of exports and by fixing statutory maximum prices. In the absence of control over supplies, price control failed, but by September, 1942, supplies and prices appeared to have reached a state of equilibrium. This month was a critical one in the development of the famine. If the Government of Bengal had set up at that time a procurement organization, the crisis, which began about two months later, would not have taken such a grave turn.

With the partial failure of the *aman* crop at the end of 1942, the supply position became serious and prices again rose steeply. If a breakdown in distribution was to be averted, it was essential that Government should obtain control of supplies and prices. The measures taken by the Government of Bengal to achieve control of supplies and prices during 1943 were inadequate and, in some instances, wrong in principle. In January and February, 1943, the Provincial Government endeavoured unsuccessfully to obtain control of supplies and to regulate prices by means of procurement operations. Better success would have been achieved if procurement had been undertaken by an official agency instead of by agents chosen from the trade, and if Government had made it clear that they would not hesitate to requisition from large producers as well as from traders, in case supplies were held back. The decision in favour of "de-control" in March, 1943, was a mistake. In

the conditions prevailing in Bengal at the time, it was essential to maintain control; its abandonment meant disaster. We refer to this matter again in the immediately succeeding paragraph. The Government of Bengal erred in pressing strongly for "unrestricted free trade" in the Eastern Region in May, 1943 in preference to the alternative of "modified free trade". The introduction of "unrestricted free trade" was a mistake. It could not save Bengal and was bound to lead to severe distress and possibly starvation in the neighbouring areas of the Region.

De-control.

One result of the policy underlying "de-control" and "unrestricted free trade" was that the greater part of the supplies reaching Calcutta was not under the control of Government. So long as this policy was followed it was not possible to introduce rationing in Greater Calcutta. Even after the policy was reversed, there was considerable delay in the introduction of rationing. The absence of control over the distribution of supplies in Calcutta and the failure to introduce rationing at any time during 1943 contributed largely to the failure of control over supplies and prices in the province as a whole.

Inadequate
arrange-
ments.

The arrangements for the receipt, storage, and distribution of food supplies despatched to Bengal from other parts of India during the autumn of 1943 were thoroughly inadequate and a proportion of the supplies, received during the height of the famine, was not distributed to the needy in the districts, where such food was most required. Better arrangements for the despatch and distribution would have saved many lives.

While reports of distress in various districts were received from the Commissioners and Collectors from the early months of 1943, the Provincial Government did not call for a report on the situation in the districts until June, and detailed instructions relating to relief were not issued till August. Famine was not declared. The delay in facing the problem of relief and the non-declaration of famine were bound up with the unfortunate propaganda policy of "No-Shortage" which, followed during the months of April to June with the support of the Government of India, was unjustified when the danger of famine was plainly apparent. The measures initiated in August were inadequate and failed to prevent further distress, mainly because of the disastrous supply position which had been allowed to



develop. A Famine Relief Commissioner was not appointed till late in September. It appears that at one stage in 1943, the expenditure on relief was limited on financial grounds. There is no justification, whatsoever, for cutting down relief in times of famine on the plea of lack of funds. If necessary, funds should be provided by borrowing in consultation with the Reserve Bank or the Government of India. This principle holds even when, as in the Bengal famine, food was more urgently required than money for relief purposes. The medical relief provided during 1943 was also inadequate. Some of the mortality which occurred, could have been prevented by more efficient medical and public health measures.

Expenditure on relief work limited on financial grounds.

Between the Government in office and the various political parties, and in the early part of the year, between the Governor and his Ministry, and between the administrative organization of Government and the public there was lack of co-operation which stood in the way of a united and vigorous effort to prevent and relieve famine. The change in the Ministry in March-April, 1943, failed to bring about political unity. An "all-party" Government might have created public confidence and led to more effective action, but no such Government came into being. It may be added that during and preceding the famine, there were changes in key officers concerned with food administration. In 1943, there were three changes in the post of Director of Civil Supplies.

Change in Ministry.

Changes in food officers.

Due weight has been given in our report to the great difficulties with which the Bengal Government were faced. The impact of the war was more severe in Bengal than in the rest of India. The "denial" policy had its effect on local trade and transport, and in particular affected certain classes of the population, for instance, the fishermen in the coastal area. The military demands on transport were large. There was a shortage of suitable workers available for recruitment into Government organizations concerned with food administration and famine relief. The cyclone and the partial failure of the *aman* crop were serious and unavoidable natural calamities. But after considering all the circumstances, we cannot avoid the conclusion that it lay in the power of the Government of Bengal, by bold, resolute and well-conceived measures at the right time to



have largely prevented the tragedy of the famine as it actually took place. While other Governments in India were admittedly faced with a much less serious situation than the Government of Bengal, their generally successful handling of the food problem, and the spirit in which those problems were approached, and the extent to which public co-operation was secured stand in contrast to the failure in Bengal.

Central
Govern-
ment's res-
ponsibility.

4. The Government of India failed to recognize at a sufficiently early date, the need for a system of planned movement of food-grains, including rice as well as wheat, from surplus to deficit Provinces and States; in other words, the Basic Plan should have come into operation much earlier than it did. With regard to wheat, an arrangement should have been reached at an early stage between the Government of India and the Government of the Punjab about the price level to be maintained and the establishment in that province of an adequate procurement organization. If this had been done, the price of wheat would have remained under control and it should have been possible to send to Bengal a large proportion of the supplies which reached that province towards the close of the year, at an earlier period when they would have been much more useful. In the closing months of 1942, and the first two months of 1943, the supplies of wheat reaching Calcutta were only a fraction of normal requirements. If adequate supplies had been available in these months, the pressure on the Calcutta rice market, in so far as it arose out of the shortage of wheat, would have been reduced. Again, if the Basic Plan in regard to rice had come into operation in the beginning of 1943, it would have been possible to provide Bengal at an earlier date with supplies of rice in approximately those quantities which were obtained later in the year from other provinces and states.

The Government of India must share with the Bengal Government responsibility for the decision to de-control in March 1943. That decision was taken in agreement with the Government of India and was in accordance with their policy at the time. By March the position had so deteriorated that some measure of external assistance was indispensable if a disaster was to be avoided. The correct course at the time was



for the Government of India to have announced that they would provide month by month, first, the full quantity of wheat required by Greater Calcutta, and secondly, a certain quantity of rice. It would, then, have been possible for the Government of Bengal to have maintained controlled procurement, and secured control over supply and distribution in Greater Calcutta. The Government of India erred in deciding to introduce "unrestricted free trade" in the Eastern Region in 1943 in preference to "modified free trade." The subsequent proposal of the Government of India to introduce "free trade" throughout the greater part of India was quite unjustified and should not have been put forward. Its application, successfully resisted by many of the provinces and states, particularly by the Governments of Bombay and Madras, might have led to serious catastrophe in various parts of India.

By August 1943, it was clear that the Provincial Administration in Bengal was failing to control the famine. Deaths and mass migration on a large scale were occurring. In such circumstances, the Government of India, whatever the constitutional position, must share with the Provincial Government the responsibility for saving lives. The Government of India sent large supplies of wheat and rice to Bengal during the last five months of 1943, but it was not till the end of October, when His Excellency the Viceroy, Lord Wavell, visited Bengal, as his first duty on taking office, that adequate arrangements were made to ensure that these supplies were properly distributed. After his visit, the whole situation took an immediate turn for the better.

We feel it necessary to draw attention to the numerous changes in the individuals in charge of food administration of the Government of India during the crucial year of the famine. Mr. N. R. Sarker, the Food Member, resigned in February, 1943, and His Excellency the Viceroy, Lord Linlithgow, held the food portfolio without a Member to assist him until May. The Secretary of the Food Department, Mr. Holdsworth, fell ill during this period and died. His place was taken by the Additional Secretary, Major-General Wood, a Military Officer new to the problems of civil administration. Sir Azizul Haque became Member in charge of the Food Department in May. He was succeeded by Sir J. P. Srivastava in August and a new

Changes at
the centre.



Secretary of the Department, Mr. Hutchings, was appointed in September.

In Bengal, the new Ministry took office towards the end of April and Sir Thomas Rutherford became Governor in September 1943, replacing the late Sir John Herbert, then suffering from the illness of which he subsequently died.

Thus, during the various critical stages in the famine, heavy responsibility fell on individuals who were new to their posts.

5. We have criticized the Government of Bengal for their failure to control the famine. It is the responsibility of the Government to lead the people and take effective steps to prevent avoidable catastrophe. But the public in Bengal, or at least certain sections of it, have also their share of blame. We have referred to the atmosphere of fear and greed which, in the absence of control, was one of the causes of the rapid rise in the price level. Enormous profits were made out of the calamity, and in the circumstances, profits for some meant death for others. A large part of the community lived in plenty while others starved, and there was much indifference in face of suffering. Corruption was wide-spread throughout the province and in many classes of society.

It has been for us a sad task to inquire into the course and causes of the Bengal famine. We have been haunted by a deep sense of tragedy. A million and a half of the poor of Bengal fell victims to circumstances for which they themselves were not responsible. Society, together with its organs, failed to protect its weaker members. Indeed there was a moral and social breakdown, as well as an administrative breakdown."

The Commission also made important observations on death and disease during and after the famine, and on medical relief and public health work, and put forward valuable suggestions relating to food administration, rehabilitation, and protective and supplementary foods.

The sufferings of the people did not end with the end of the famine. Diseases of various sorts which followed in the wake of the famine weakened the vitality of the people and shattered their moral stamina. It took them a number of years to shake off the effects of the destitution and devastation brought about by the great disaster.

People's
failure.

Aftermath
of the
famine.



During the last seven years there has not been any major food trouble in India, although food shortages of greater or less intensity have occurred on several occasions in some parts of the country. But in 1948-49, substantial damage was caused to standing crops over large areas, while food production was adversely affected by the failure of the monsoon in many parts of Western India and Gujrat and by floods in Uttar Pradesh and Bihar. In 1950, a great earthquake and subsequent floods have brought disaster to Assam. In many other States also there have been heavy floods, while in some others failure of rain has ruined the harvests. Thus severe scarcities, not very far removed from famines, are being experienced in several parts of the country at the present moment.

Present
crisis.

In some quarters there is a tendency to regard the famine question as identical with the question of unemployment. A famine does, no doubt, throw workers out of employment; but, unlike the unemployment which one finds in the advanced countries of the West it affects millions of men, and the magnitude of the distress which ensues is unimaginable in modern Europe or America. Hundreds of thousands of people succumb to starvation or to diseases which lie in the wake of famines, and those who are left behind remain in a condition more miserable than before,—their resources crippled, health shattered, and capacity for work greatly impaired. A famine also means much loss to the Government. Decrease of revenue and increase of expenditure combine to dislocate its finances. It would be extremely unwise, therefore, to minimise the importance of this serious question. If science and state effort have succeeded in making famines an impossibility in modern countries, there is no reason why they should be allowed to continue their ravages in India.

Effects of
famines.

Preven-
tion neces-
sary and
possible.

From this brief sketch it is evident that famines are frequently recurring calamities in India. It was estimated by the Famine Commissioners of 1880 that, on an average, there are two bad seasons to seven good, and one-twelfth of the population may be approximately taken as the portion affected by each famine. Some provinces are more liable to these calamities than others, but hardly a year passes in which some part or other of the country does not, in some degree, suffer

Famines
recurring
calamities.



from a famine or a scarcity. The more important famines come at irregular intervals,¹ though not without warning.

Signals.

The first signal of an approaching famine is a failure of rains, followed by a failure of crops. Prices rise high, and the less efficient among the labourers, finding no employment, swell the ranks of beggars. At the same time there is a contraction of credit and of private charity. Theft and robbery increase, and a general restlessness is visible among the people. There is also a deterioration in the health of the people, which often leads to epidemics of a serious kind.

Famine Codes.

In order to cope with famines, all the provinces have their Famine Codes,² which, differing in minor details, agree in all essential matters. They prescribe the precautionary or preparatory arrangements to be permanently maintained in ordinary times, and the steps to be taken when the information received indicates the imminence of scarcity or famine. They also lay down the duties of all officers concerned when famine or scarcity is actually present, and the various measures of relief to be adopted.

Relief measures.

As soon as the Provincial Government are able to read the first signals of an approaching famine or scarcity, it is their duty to take the necessary steps for meeting it. The Famine Commissions recommended a plan of work which may be briefly described thus: During the first stage,

First stage.

(i) liberal advances should be given for the construction of temporary, and the repair of permanent, wells, and for other village improvements;

(ii) non-official co-operation should be enlisted and the organisation of public charity should be vigorously taken in hand;

(iii) liberal advances should be given for the purchase of seed for the ensuing crops;

(iv) the police should be supplied with funds to relieve wanderers in distress;

¹ It has sometimes been suggested that famines occur in cycles, but, as the Commission of 1880 remarked, our knowledge of the periodicity of past famines does not enable us to calculate such cycles.

² In 1883, the provincial Famine Codes were first promulgated. Since then they have undergone several revisions.



(v) test works should be started, and poor-houses should be opened at the chief centres of population ;

(vi) enquiries as to suspensions of revenue should be begun ;

(vii) relief circles should be organised, and the necessary inspections should be made ;

(viii) preliminary lists should be drawn up of persons eligible for gratuitous relief ;

(ix) if there are threatenings of a scarcity of fodder or drinking water, steps should be taken to meet them and to encourage private enterprise to import fodder and to develop the water-supply.

The object of test works is "not to relieve famine, but to test the presence of it ; not to relieve hunger, but to find out whether people are hungry". Directly the numbers attending test works indicate that further relief measures are necessary, test works should be converted into relief works, which are the backbone of famine-relief administration. All who apply and are capable of working should be admitted to relief works and task and wages should be graduated according to their respective strength and physical requirements. The fundamental principle of the famine wage is that "the lowest amount sufficient to maintain health" should be given. Relief works should be of two kinds: public works and village works. The former would be works under the control of the Public Works Department, and would engage large numbers of people. The latter would be under the revenue authorities and would be local works of use to a particular village or group of villages.

Second stage.

Relief Works.

The distribution of gratuitous relief should also begin when test works are converted into relief works ; and care should be taken to see that all persons entitled by the Code to receive it are brought upon the list. These are persons having no relative able and bound to support them, who are incapacitated by physical infirmity, or by their presence at home being necessary to attend on the sick or infant children, from earning a subsistence on relief works.

Gratuitous relief.

Poor-houses also should at the same time be started at all convenient centres for the reception of persons unfit to work, who either have no homes or cannot conveniently be sent to

Poor-houses.



their homes, and of persons in need of relief who, though fit, refuse to labour.¹

Kitchens
and minor
measures.

Of the minor measures of relief, the most important is that of kitchens, intended mainly for the dependents of persons engaged on the relief works. The other measures are (a) gratuitous or semi-gratuitous relief to *pardanashin* women, (b) relief to respectable men, (c) relief to artisans, (d) relief to weavers, and (e) temporary orphanages.

Last stage.

Before the rains break, and in time for the prudent use of the money, large *takavi* advances should be given for cattle and seed, and Charitable Fund donations should be distributed. At the beginning of the monsoon, people may be induced to leave the relief works, provided the necessary pressure is used with the greatest caution and safeguarded by a large extension of gratuitous relief. After the necessity for state relief has completely ceased with the growth of new crops, all relief operations should be closed.

Foresight,
energy,
and sym-
pathy
essential
for
success.

The rules recommended by the several Famine Commissions and embodied in the Famine Codes leave very little to be desired. But in practice the success of operations depends very largely upon the foresight, energy, and sympathy of the executive officers of the Government. In this connection three things are necessary to be borne in mind: first, that it is desirable to take steps for warding off a calamity, if possible; secondly, that it is ultimately economical to start relief operations early; and thirdly, that for preventing loss of life and preserving the health and strength of the people, relief ought to be given liberally.

Causes and
Remedies:
(i) Physical.

We ought not, however, to rest content with mere palliatives. Prevention is always better than cure, and it would certainly be wise to find out the root-causes of these calamities and to adopt the necessary preventive measures. Of course, the most obvious and direct cause is drought, that is to say, the late commencement, or insufficiency, or early cessation of, the monsoon rains. Disforestation has been pronounced by experts as a cause of insufficient rainfall; and a more perfect

¹ The Famine Commissioners of 1901 observed in this connection: "We were struck by the failure of the local officers in Bombay in this respect . . . a failure which was one of the causes of the great mortality in Gujrat" (*Report*, p. 20).

system of afforestation than has hitherto been practised will, it is believed, go a long way towards preventing drought. The artificial supply of water by means of irrigation is of even greater importance; and although much has been done in this matter, there is still room for a great deal more of work. The Famine Commissioners of 1901 said: "All provinces do not, indeed, present practicable schemes for the construction of great canals; but the possibility of smaller protective works has in no province been exhausted, while in some provinces they have as yet hardly been examined. For storage tanks, reservoirs, and, above all, irrigation wells, the scope and the necessity are very great." Improved methods of agriculture and the adoption of a system of 'dry cultivation' are also needed to ensure the production of crops. Sometimes crops are destroyed by floods, against which an efficient system of river-training and drainage is the only safeguard. Insect pests have also been known to be destructive to crops, but with the aid of science it ought not to be very difficult to check this evil.

Important as these physical causes are, the chief cause of famines is an economic one. Drought or excessive rainfall may be responsible for the insufficient production of crops in certain areas, but the main reasons for the heavy mortality and the intense suffering which accompany a failure of crops is to be found in the fact that the people have no reserve power to fall back upon. The Famine Commissioners of 1880¹ held that there was enough food in the country to feed the entire population, even in the worst years; and the Famine Commissioners of 1898, concurring in this view, remarked: "We think that the surplus produce of India, taken as a whole, still furnishes ample means of meeting the demands of any part of the country likely to suffer from famine at any one time, supposing such famine to be not greater in extent and duration than any hitherto experienced."² The calamities which devastate the country from time to time are not, therefore, crop famines, but money famines. It is not the lack of food which the people suffer from, but the want of resources with which to buy food. Speaking of the poverty of the cultivator, the Famine Com-

(ii) Economic.

Crop famines or money famines?

¹ *Report of Famine Commission*, 1880, p. 59.

² *Ibid.*, 1898.



missioners of 1901 said: "In good years he has nothing to hope for except a bare subsistence; in bad years, like last year, he falls back on public charity." But there is a class of persons whose condition is much worse than that of cultivators, namely, landless labourers. This class is, in fact, the first to succumb to the effects of a famine. It is not, however, these sections of the community alone but almost all sections that are affected, in a greater or less degree, by famines.

General poverty the main cause.

Whatever differences of opinion may exist about the improvement in recent years of the material condition of the people, that there is still a dense mass of poverty is admitted on all hands. This general poverty can be traced to several causes. The great bulk of the people is dependent on agriculture; and agriculture as a profession is not so remunerative as manufactures are. Most of the old handicrafts have died out, and only a few modern industries have as yet been established. The population of the country has considerably increased, but it has not been accompanied by a proportionate increase in the wealth of the country. Again, a costly system of administration has necessitated the imposition of a heavy burden of taxation. Although the annual drain of wealth which used to leave the country poorer and poorer as one year succeeded another has ceased with the termination of British rule, no sign of returning prosperity is yet visible. Lastly, litigation, the custom of early marriage, and those social habits which prompt improvident expenditure in ceremonial functions, add largely to the miseries of the people.

Measures for combating poverty.

Several measures may be suggested for combating the poverty evil. Besides introducing improvements in the method of agriculture and extending the cultivated area, every effort should be made to diversify the occupations of the people. The Government and the people should join hands in establishing manufactures of various sorts,—large-scale industries, medium-size industries, as well as small handicrafts and cottage industries. As Sir H. S. Cunningham said many years ago: "The direct, deliberate, and systematic promotion of industrial enterprise is not a less important duty, and its thorough recognition by the state would, I believe, be the most important administrative reform of which the Indian system is capable." A reduc-



tion of public expenditure is urgently needed so as to make a reduction of taxation and the development of nation-building services possible. Greater moderation in the assessment of the land revenue, together with less rigidity in its collection in bad years, and, if possible, a definite limitation of the share of the state in the income derived from the land, will ensure to the cultivator the fruits of his labour and greatly improve his economic condition. Emigration, if properly organised, will appreciably help to relieve the pressure of the population on the soil. The extension of co-operative credit will be very useful in checking indebtedness and promoting thrift among villagers. The establishment of Arbitration Courts will decrease ruinous litigation. Lastly, it is to be hoped that the leaders of society will take active steps to root out evil customs, wherever prevalent.

CHAPTER XVI

THE FOOD PROBLEM

1. PRODUCTION

ALTHOUGH before the Second World War, India was an importer of rice to a small extent mostly from Burma, she also exported small quantities to the neighbouring countries. There was no food problem as such until the second year of the war, when imports suddenly stopped with the Japanese occupation of Burma. The acuteness of the problem became serious during the Bengal famine in 1943. In the same year the Government of India launched the Grow More Food Campaign. In the early stages, it consisted of a number of *ad hoc* schemes, designed to increase food production by intensive cultivation and diversion of acreage from cash crops to food crops. In 1945, immediately after the cessation of the war, an attempt was made to place India's food economy in the post-war period on a planned basis, and a Committee¹ was set up for the purpose. The Grow More Food Campaign, however, was not actually placed on a planned footing until 1947, when definite targets were fixed for additional food production in each Province and State. The total targets for the five-year plan were 3 million tons for the Provinces and 1 million ton for the States. This plan was expected to be completed by the end of the year 1951.

Meanwhile, the partition of the country had deprived India of large tracts of land raising food and cash crops, while food imports from abroad involved a huge drain of the country's foreign exchange resources. The implications of this huge drain were not, however, realised for a considerable time, and

¹Sir J. P. Srivastava observed on September 13, 1945 at a meeting of the session of the Central Food Advisory Committee: "The main factor which led to the breakdown of food administration in the country in 1943 were the cessation of the import of rice from Burma and the possibility of the free import of wheat from overseas, the incapacity of the trade functioning in condition of scarcity to bring about equitable distribution of available supplies, and the shortage of transport within the country."



even as late as the beginning of the year 1948, the Government laid down a "Five-Year Food Import Policy." Soon after this however, it became evident, that the continuance of large imports of food grains would mean the economic ruin of the country. By the middle of 1948, therefore, this food import policy was abandoned. In March, 1949, the Government of India announced their decision to stop all imports of food grains after December, 1951, except in the case of a grave national emergency caused by a widespread failure of crops or for the purpose of building up a reserve, and to meet the deficit between production and demand by stepping up the internal production of food. A revised plan of food production was accordingly prepared by the Ministry of Agriculture, Government of India, in consultation with the Provincial and State Governments. The deficit of the country was estimated at the existing level of nutrition, and the year 1947-48 was taken as a normal base year for this purpose. The quantity of cereal available at home for human consumption during that year was 41·7 million tons. The imports during that year were 2·8 million tons. The total quantity of food grains available for consumption was thus 44·5 million tons. Taking the increase of population between the basic year and March, 1951 into account, the total consumption was anticipated to be 46·1 million tons. The deficit to be made up would thus amount to 4·4 million tons.¹

The Government's decision to stop imports of food gave a new impetus to the Five-Year Plan of Grow-More-Food Campaign started in 1947-48. According to this Plan, the targets of additional production every year were:

			(Lakh tons)
1947-48	...	...	... 9·09
1948-49	...	...	... 8·56
1949-50	...	...	... 9·85

In order to implement the new decision, a Commissioner for Food Production was appointed at the Centre and was vested with wide executive powers to discharge the responsibility of achieving self-sufficiency in food-grains. An Emergency Branch

¹ *Self-sufficiency in Food*, a pamphlet issued by the Agricultural Ministry of the Government of India, November, 1949.

was set up in the Ministry of Agriculture to co-ordinate the food production plans of all the States, arrange for financial, technical and other assistance from the Government of India and generally supervise the execution of the food production programme in the country. An expert Board was appointed to advise and assist the Food Commissioner. The Government also directed each of the States to create a similar machinery for quick and effective action.

In order to meet the deficit, which was about 10 per cent. of the country's total food production, the Government of India considered various schemes for increasing production. These consisted of three categories, namely, short-, medium-, and long-term programmes. In the short-term programme, the Government proposed immediately to increase the yield from land then under cultivation by (a) production and distribution of improved seeds, (b) application of chemical fertilisers and green manuring, (c) composting of farm-yard manure and town refuse and its application to the soil, (d) plant protection, (e) wider use of existing irrigation facilities. The medium-term projects included those for reclamation of weed ('*kans*')-infested and jungle lands with the aid of 375 heavy tractors imported from the U.S.A. It was expected that about 8 lakh acres of land could be reclaimed by the end of 1951. For this a loan of 10 million dollars was obtained from the International Bank. The long-term programme involved large irrigation schemes, which included also flood control and the development of power facilities. The Government plans envisaged the increased production of food grains as well as commercial crops.

By a programme of intensive cultivation in the States, it was expected to produce 40 lakh tons of additional food. Another 3 lakh tons would be produced through extensive cultivation by mechanised means. Further, a larger quantity of food would be produced by undertaking small irrigation works. Between 1947 and 1949 a large number of wells was constructed, many tanks were repaired, and tube-wells were sunk in many parts of the country with the aid of mechanised and hand-drilling equipments.

Land improvement schemes were undertaken in some parts of the country by drainage and clearance of marshy lands and by

the reclamation of *khar* (saline) land along the sea-coast. Steps were also to be taken for soil conservation by preventing erosion. In addition to the greater use of green manures, the use of chemical fertilisers was to be encouraged. For this purpose steps were taken to establish a large Fertiliser Factory at Sindri in Bihar.

For the long-term programme multi-purpose irrigation projects were planned and some of them have been actually undertaken by the Government.

Apart from the programme for increasing the production of cereals, the Government also decided on the development and use of such high-yielding non-cereal food crops as *banana*, *papaiya*, sweet potato and tapioca, which had good food value and the yield of which per acre was many times more than in the case of cereals.

As the success of the programmes would depend on the provision of adequate finance, loans and grants were to be given more extensively than before. For the guidance of State Governments, rules and principles governing financial assistance were prepared. The general principle was adopted that, while in private schemes of food production, the agriculturist concerned must pay at least 50 per cent. of the total expenditure, in the case of Government schemes, the un-economic portion of the expenditure would be shared by the Central and State Governments.

The loans and grants sanctioned by the Government to the Provinces during the years 1947-48 and 1948-49 were as below:

Year	Loan	Total grant
1947-48	Rs. 1.36 crores	Rs. 2 crores
1948-49	Rs. 2.31 crores	Rs. 4.26 crores

The extra production of food expected was 6.74 lakh tons in 1947-48 and 7.33 lakh tons in 1948-49.

Most of the schemes outlined above were, on the face of them, quite sound; some of them perhaps were not quite up to the mark. The tractors imported from abroad were too heavy for use except in certain very dry areas. The principles of action laid down were, on the whole, quite good, but how far they were actually carried out is not certain, and to

what extent the loans and grants reached the proper persons is also not free from doubt. As a matter of fact, food production did not substantially increase. The yield of the important food grains declined by 3,134,000 tons or 7 per cent. in 1948-49 as compared with 1947-48, as shown under:—

(In thousand tons)			
		1947-48	1948-49
Rice	...	19,584	18,863
Wheat	...	5,389	5,414
Jowar	...	5,967	4,788
Bajra	...	2,764	2,247
Maize	...	2,127	1,762
Ragi	...	1,455	1,356
Barley	...	2,604	2,266
Gram	...	4,503	4,563
Total		44,393	41,259

The following table gives a clear view of the *Area, Food Production and Imports in the Indian Union* for 3 years¹:—

	1946-47	1947-48	1948-49
(A) Area under food grains (‘000 acres) ...	181,640	177,876	176,545
(B) Production of food grains (‘000 tons) ...	46,074	47,433	42,973
(C) Net imports of food grains (‘000 tons) ...	2,728	3,250	4,000

Although full figures for 1949-50 are not yet available to the public, an idea of the activities of the Government regarding increased food supply and of the results thereof can be obtained from the statement made by Mr. R. K. Patil, Commissioner of Food Production, to the Press a few months ago. The production during 1949-50 was 9·35 lakh tons which represented 95 per cent. of the target fixed. This increase was effected by the introduction of intensive cultivation methods, by providing

¹ Adapted from the *Eastern Economist*.

more irrigation facilities and reclaiming waste land. The percentage and quantitative achievement in 1949-50 marked, in the official view, an improvement over the previous two years, as may be seen from the following figures:

			Target	Achievement	Percentage
1947-48	...	...	9.99	6.86	75
1948-49	...	...	8.86	7.71	87
1949-50	...	...	9.85	9.35	95

The main principle governing the Food Self-sufficiency Campaign was the encouragement of schemes of a permanent nature which could be realised quickly, *e.g.*, construction of wells and tanks, land improvements, etc. In the earlier stages of the campaign, the supply schemes, *i.e.*, distribution of improved seeds, fertilisers, etc., were more numerous than the permanent improvement schemes. But the emphasis on permanent schemes was increased every year.

During 1949-50, the additional production through irrigation schemes was estimated at 4,31,796 tons which was 163 per cent. in excess of the 1948-49 achievement. Cultivation of fallow lands was another aspect on which considerable emphasis was laid. During 1949-50, 5,74,019 acres of waste land were reclaimed by the Central Tractor Organisation. A number of States including Madhya Pradesh and Uttar Pradesh passed legislation making it obligatory on landowners to cultivate lands lying fallow.¹ In addition, a number of special measures suggested by the Centre have been adopted by the State Governments. These include: (a) diversion of technical personnel to the Food-Self-sufficiency Campaign, (b) simplification of the procedure for the grant of *taccavi* loans, (c) supply of fire-arms to villagers for protection of crops from the ravages of wild animals, (d) creation of economic farming units on a co-operative basis, (e) compost production in urban and rural areas. Further, in order to ensure that agricultural operations might

¹ Among the other methods adopted by the Government, according to Mr. Patil, was the securing of popular co-operation at all levels, starting from the Centre down to the village panchayats. Competitions in food production were organised in Uttar Pradesh and West Bengal to encourage progressive farmers and to instil enthusiasm in the average cultivator.

not suffer because of lack of implements and tools, increased allotments of steel, cement and coal were made.¹

A great deal of propaganda work has been carried on with the object of persuading the consumers to show a spirit of sacrifice by observing abstinence, to substitute non-cereal foods for cereals, and to effect savings in food-grains by methods like "miss a meal" once a week. The quantities of the food ration have been reduced more than once in many of the States, forgetting the fact that even the original quantities of ration had been below the nutrition level. The import target has been raised by successive stages from 1.5 millions to over 3 million tons. The expenditure of the Government on food purchases amounts to about 130 crores of rupees. The attainment of self-sufficiency in food is still regarded as possible by the Government by the end of March, 1952, that is to say, with an extension of three months' time.

The list of measures professed to have been adopted by the Government to increase food production appears to be a very impressive one. But in spite of these measures and in spite of

¹ The following table shows the total amounts of grants (including manure distribution grants, seed distribution grants, land development grants, minor irrigation grants, and miscellaneous grants) made by the Central Government to the States during the year 1949-50 (1st April, 1949 to 10th January, 1950):

Name of the State.					Total grant (Lakhs of Rupees)
1.	Assam	...	...	...	19.22
2.	Bihar	...	...	...	60.14
3.	West Bengal	...	...	...	15.58
4.	Bombay	...	...	...	88.80
5.	Madhya Pradesh	...	...	...	30.24
6.	Madras	...	...	...	1,56.27
7.	U. P.	...	...	...	44.01
8.	East Punjab	...	...	...	47.02
9.	Orissa	...	...	...	1.20
10.	Ajmer	...	...	...	3.66
11.	Coorg	...	...	...	3.24
12.	Delhi	...	...	...	3.24
13.	Madhya Bharat	...	...	...	16.64
14.	Mysore	...	...	...	42.63
15.	Pepsu	...	...	...	1.32
16.	Travancore and Cochin	...	...	...	32.24
17.	Saurashtra	...	...	...	22.50
18.	Vindhya Pradesh	...	...	...	Rs. 30,000

Grand Total ... 5,88.31

Report of the Ministry of Agriculture, 1949-50.

larger imports of food-grains from abroad than had originally been contemplated, there is insufficient supply of food in the country. This is attributed in official circles to natural calamities, such as cyclones, failure of rain in some areas, and floods in others. But such natural calamities are not uncommon happenings in India, and foresight, imagination and administrative ability ought to have been able either to prevent them or to guard against their disastrous effects.

The food problem has been the subject of discussion in Parliament as well as in the Press for some time past. In the third week of November, 1950, a lively and somewhat acrimonious debate took place in Parliament on the question of the handling of the food situation by the Government. The facts and figures supplied by the Food Minister and the arguments advanced by him failed to satisfy the members. His facts and figures were challenged and his optimism was dubbed as complacency. His assertion that natural calamities were responsible for the present food crisis extorted the remark that prudence and foresight on the part of the Government would have averted the disaster.¹ The irritated Food Minister sought shelter behind the Congress wall,² but this attitude was as irrelevant as it was unbecoming. Some members expressed the view that inefficient and dishonest administration of food policy was the real cause of the difficulty. Other members observed that the way in which food control and food procurement had been practised discouraged food production and encouraged the growth of commercial crops. The Press has always been severely critical of the food policy of the Government and has held the maladministration of the Food Department responsible for the present situation.

An energetic Campaign for Food Self-Sufficiency has been undertaken by the Government of India and the State Govern-

¹ Acharya Kripalani observed very pertinently: "These natural calamities are with us always. We know that our agriculture depends upon weather and rain. He will be a poor marksman who, while he is shooting, makes no provision for wind and the natural movements of birds and beasts. All these must be taken into consideration when responsible Ministers make statements about the food situation."

² Sri K. M. Munshi was reported to have told the "Congress critics" that "it was the duty of those who have put the Government in power not to weaken it by criticisms and spread frustration outside."

ments during the last two years over the length and breadth of the country. Numerous statements have been issued and innumerable speeches have been made by Cabinet Ministers and officers of the Government, high and low. But the actual results of the Campaign have been very poor. The reason for this gap between the promise and the performance is to be found in the fact that food does not grow on statements and speeches. Many of the schemes which were framed have not been actually carried out in practice, while very little of the financial assistance sanctioned by the Government seems to have reached the actual tillers of the soil. In brief, the failure of the plans may be ascribed to (i) corruption, incompetence and neglect of duty on the part of the Government officers, (ii) greed, profiteering and blackmarketing on the part of the traders, (iii) apathy and lack of confidence on the part of the general public, and (iv) helplessness and hopelessness on the part of the agriculturists. Meanwhile, inordinately high prices of food are causing great misery to the poor and middle classes all over India, serious food shortages are being experienced in most parts of the country, and acute distress akin to a famine is prevailing over large areas in some of the States of the Indian Union.

2. CONTROL

India's dependence on foreign food-grains is now quite substantial, extending as it does to about 10 per cent of the total requirements of the country. Moreover, the character of our dependence on foreign food has also changed. We now import not only rice but large quantities of wheat in which we previously enjoyed the status of a net exporter. As the Food Minister of India pointed out in Parliament in February, 1950, out of the $1\frac{1}{2}$ million tons of food-grains to be imported during 1950, the quantity of rice would not exceed 1 lakh tons and the balance would consist wholly of wheat.

Not only has the composition of imported grains changed, but the sources of supply are also now largely different. India formerly imported food mainly from Burma and Siam, but now we have to go for the purpose to such distant lands as the U.S.A., Canada, Brazil, Argentina, Mexico, Ecuador, Australia

and so forth. As most of these latter are hard currency countries, import of food-grains from them means an additional complication. During the post-war period there has been a deficit trade balance in relation to these hard currency areas. Our surplus currency earnings as a result of our trade with soft currency areas cannot, therefore, be used to pay debts incurred in hard currency areas in the manner we could do before the war, when, as a matter of fact, no distinction at all existed between hard currency and soft currency areas.

Our present acute position in food has developed only in gradual stages. When prices first began to move up on the outbreak of hostilities, the possible repercussions of an ultimate extension of the arena of conflict on the food position of the country hardly troubled the mind of either the Government or the public, and no measures were thought necessary to conserve and to extend the food resources of the country. What moderate increases in the prices of food-grains took place initially were even welcomed in certain quarters as being beneficial to the interest of the cultivators who had been hit hard in the earlier period of low prices. The first Price Control Conference which took place in October, 1939 did not, accordingly, take any serious view of the price increases that had occurred and refrained from making any specific recommendations.

✓When we look for an explanation of this fundamental change in our food position—a change from virtual self-sufficiency to substantial dependence on imports, two facts become noticeable. In the first place, our population has grown faster than our food supply. Neither the acreage under foodgrains nor the yield of crops per acre has kept pace with the rapidly growing number of persons to be fed. In the next place, the political division of the country has left us with a relatively larger population than food-growing areas. The serious deterioration in our wheat position is due largely to our loss to Pakistan of West Punjab and Sind, with their substantial surplus production of this important crop.

Signs of an abnormality in the food situation did not, however, take very long to show themselves, and by 1941 the position in respect of wheat had already become definitely

uncomfortable. But even when the Third Price Control Conference met in October, 1941, the chief headache to the authorities was not the increased prices of foodgrains but the rise that had taken place in the prices of cloth and yarn following the freezing of Japanese assets in India. The Conference, however, recommended that the Government should keep a close watch on the course of wheat prices and should intervene actively in the event of a further rise. Fixation of maximum price of wheat in some centres was the first food control measure taken since the outbreak of the war. There was yet no control over the price of rice, and even in April, 1942, when the Fifth Price Control Conference met, the general opinion at the Conference was that the rise in the price of rice had not been such as to justify control. As a matter of fact, until the fall of Burma, wheat and sugar were the only two food articles to be controlled.

The first step to fix the maximum price of rice was taken in Bengal on July 1, 1942 and the export of rice and paddy from the province of Bengal was banned, except under a permit. The fixation of the maximum price drove rice underground, where each dealer charged his own price. By the end of 1942, the price of rice rose to Rs. 14 per maund in the Burdwan district which had always been a surplus area.

In March, 1943 all control over rice was withdrawn, and in May restrictions on inter-provincial movement of rice were removed. This new strategy of decontrol, however, failed to work. The price of rice in Calcutta moved up further to Rs. 30 per maund. The experiment of decontrol was ended in August, 1943, when maximum prices were again fixed for rice and wheat.

Food Control, without rationing, was bound to fail as it did, but the next change in the food policy based upon rationing and controlled distribution did not come about before 30 lakhs of innocent lives had been sacrificed in the Great Bengal Famine of 1943. Controlled distribution of food was started in selected areas towards the end of 1943 and by the early part of the next year it was firmly established all over the country. Statutory rationing, on the individual basis was, however, limited to big urban or industrial areas, such as Calcutta, Bombay, Madras, Kanpur, New Delhi, etc. In the rest of the

country there was controlled distribution and the Government maintained inter-regional equity of supply. The scope of statutory rationing was however gradually extended and at the time of partition of India it covered 171 million people.

The new Food Policy was based largely upon the recommendation of the First Food-grains Policy Committee which reported in 1943. The main recommendation of the Committee related to the pooling of the surplus food resources of the country and their equitable distribution among the deficit areas. This was the Basic Plan recommended by the Committee. Any ultimate deficit which remained in spite of the central pooling of the internal surpluses and their utilisation to meet the requirements of the deficit areas was to be met by imports. The Committee also recommended the building up of a buffer reserve to meet contingencies. What has come to be known as Procurement is an essential feature of the Basic Plan, and it is the basis upon which the new food policy of the country rests.

A poor crop and failure to secure adequate quantity of grains from abroad again brought the food position to an acute stage in 1946. A Food Mission was also sent to London and Washington to secure an augmentation of the inadequate allotments made by the combined Food Board but it did not achieve much success. The food position did not improve in the following year also when there was again large-scale destruction of the wheat crop in Central India and damage to both *kharif* and *rabi* crops elsewhere. Several provinces had to impose further cuts on their already attenuated scales of rations. The food position became particularly serious after the partition of the country, and the entire system of rationing was threatened with a breakdown. The Government of India appointed a Second Food-grains Policy Committee under the chairmanship of Sir Purshattamdas Thakurdas, and mainly on the basis of the recommendations of this Committee they revised their food policy again in December, 1947. The most important recommendation of this Committee was the complete decontrol of all cereals except rice, wheat, maize and millets and of all pulses except gram. The new policy of "progressive decontrol of food-grains" was announced on 10th December, 1947.



The expectations on which the policy of progressive decontrol was based were not fulfilled and the over-all food position continued to deteriorate. Decontrol was, therefore, abandoned on the 24th September, 1948, and the old machinery of control, with some adjustments, was restored.

Concept of
self-suffi-
ciency.

As we have already noted, a new concept of self-sufficiency was introduced in India's food policy in March, 1949. Provinces and States were asked to plan their food production programmes on this basis and to tighten up the enforcement of procurement and rationing schemes so as to close all avenues of black-marketing and hoarding. The Prime Minister of India announced in August, 1949 that the Government had decided to accept the recommendation of Lord Boyd-Orr to treat food on a war footing.

Recent
develop-
ments.

Food control in India has achieved a moderate degree of success, but it has not been possible to eradicate the black-marketing in food. Still, control has been successful enough to prevent another food crisis of the magnitude of the famine of 1943. Apart from the evil of the blackmarket which tends to undermine the basis of the control system, food control has come in for special criticism in this country on a variety of grounds, such as the insufficiency of the amount of the ration, the poor quality of the rationed foodstuffs and also their high price. The Government has, therefore, wavered between conflicting policies of control and decontrol, with the result that in spite of many public pronouncements by responsible Ministers of the State to the effect that the mistake of 1947 would not be repeated, the public have not felt fully assured. Such misgivings in the country have tended to weaken the food administration also, for a department which has no assured future can hardly act effectively. Moreover, the Government of India appointed recently two expert committees on food policy, one in August, 1949, known as the Food-grains Investigation Committee and the other in February, 1950, known as the Food-grains Procurement Committee.

The Food-grains Investigation Committee found that many of the complaints about the administration of the food control system, especially those relating to insufficiency of rations, poor quality, high price, etc., were justified, and made a number of

recommendations to bring about an improvement in the present position. The Committee strongly urged that the quantity of the ration should be adequate. On the question of the continuance of the food control system the Committee expressed the view that the country was not yet ripe for complete decontrol of food, but, having regard to the goal of self-sufficiency by the end of 1951, the country should prepare from now on for the abandonment of control and return to normalcy. Statutory rationing should be continued in the transitional period in vulnerable sectors, such as industrial areas, highly deficit pockets and large cities. In other areas, a system of controlled distribution, along with free markets, should function for sometimes to act as a check on the rise of prices. The Committee further recommended that, with a view to creating a sense of self-sufficiency in the minds of the public, steps should be taken by the Government to build up buffer stocks of food.

The Food-grains Procurement Committee was in favour of the system of monopoly procurement under Government agency, which, according to it, should be adopted throughout the country.

It followed from the system of monopoly procurement that the Government must assume full responsibility to feed all those who receive the supplies. Distribution is, therefore, not only a means of supplying food to consumers at a controlled price, but it is essential to the success of the system of monopoly procurement. The Committee, therefore, recommended that all towns having a population of 50,000 or above should be put under rationing; there should be informal rationing in other towns, while villages should be assured of adequate supplies of grains.

For better administration of the control system the Committee recommended that the food resources of the country should be pooled through the Central Food Ministry. The portfolios of Food Control and Grow More Food should be in the hands of the same Minister and the Food Ministry should have the machinery to act effectively and quickly as the co-ordinating and supervisory authority.

Increased production within the borders of the country is the real solution of the food problem. But importation and



control are short-term measures which are necessary so long as there is a food deficit. As food is the first necessary of life, no risk ought to be taken in regard to the adequate supply and distribution of it. The decision to extend food control till the 31st March, 1951, is not only expedient but also wise.

CHAPTER XVII

IRRIGATION

WE have already seen that in many parts of India the normal annual rainfall is very defective ; and in some others, although the total quantity of rainfall is large, it is badly distributed with reference to the seasons or the requirements of the crops. In all these areas, irrigation is necessary for the growth of crops.

Necessity
of
irrigation.

Irrigation has been practised in India from very early times. The remains of the canals constructed by Hindu monarchs as well as by Mahomedan rulers are still to be found in many parts of the country.¹ But the chief works executed by Hindu kings were tanks of which there were thousands,—many silted up, many in ruins, many dry by destruction of the supply channels. The whole of Southern India is still covered by a network of old tanks, and millions of acres are still irrigated by them. These tanks vary in size from a few acres to ten square miles of water surface. In some places there is the chain system, where the surplus of one tank flows into the one below. Well-irrigation has always been very important in Northern India.

Irrigation
practised
from re-
mote ages.

During the early years of British rule, the subject of irrigation was much neglected, and to this neglect was due² the destruction of many noble works. The repair of old storage works and the construction of canals were strongly urged by Sir Arthur Cotton, but it was not until the middle of the last

Neglect
during
early
years of
British
rule.

¹ Speaking of the 'overflow canals' of Bengal in the past, or 'dead rivers' as they are called to-day, an expert observed that "they fall behind the great irrigation works of other countries in no particular whatever. First of all stands the magnitude of the work. Take the country traversed by these canals on the Ganges and the Damodar, and we have an irrigated area which could not have been under 7,000,000 acres. And then we have canals aligned and designed on the soundest principles, which worked for many hundreds of years and were only dislocated by a generation of civil war and discord" (Sir William Willcocks, *Ancient System of Irrigation in Bengal*).

² Lt.-Col. Tyrrell wrote: "In the Nagpur and Hyderabad country of the Deccan, the ruins of extremely large tanks exist, now in the midst of jungles, formerly the sites of a rich cultivation and a busy population" (*Public Works Reform in India*).



century that the matter engaged the serious attention of the Government.

Inunda-
tion
canals.

The simplest method of supplying water to fields is that of leading water from rivers and streams by means of inundation canals.¹ They are formed by making shallow cuts through the river bank, into which the water flows when the level of the river is raised by the floods. These are mainly to be found in the basin of the Indus and its tributaries. It is, at the best, a precarious system of irrigation.

Perennial
canals.

Remains
of old
works.

The most important system is that of perennial canals. Many of the weirs in Madras were constructed by the Hindu monarch, Krishna Raya, early in the sixteenth century. The earliest in Upper India were the Jumna Canals. The one on the west bank is attributed to Firoz Shah in the fourteenth century; it fell into disrepair and was restored by Akbar and Shah Jehan. The Eastern Jumna Canal was originally commenced by Shah Jehan, and restored and improved by the British Government. The early efforts of the British Government in India were directed to the improvement of the existing indigenous works rather than to the construction of new irrigation projects. In the first quarter of the nineteenth century, three important improvement schemes were taken in hand, viz., the Western Jumna Canal in the Punjab, the Eastern Jumna Canal in Uttar Pradesh and the Cauvery Delta system in Madras. The famine of 1832-1833 led to a vigorous construction of irrigation channels, but these were executed in haste upon imperfect information or bad alignments. The Cauvery Delta system in Madras is of far greater antiquity than the two Jumna systems, and irrigates over a million acres. This system comprises some 1,500 miles of main canals and branches and nearly 200 miles of distributaries.

Early
efforts.

Important
canal
schemes.

Cauvery
Delta
system.

The first serious attempt in the construction of canals for irrigation may be said to have commenced about the year 1840, when the project for the Ganges Canal was submitted. But the construction of this canal was greatly delayed owing to political and financial difficulties. As Mr. Harris remarked, "from the beginning, however, the shadow of war lay heavy over the canal

¹ *Vide Buckley, Irrigation Works of India.*

works, and neither the attention of the higher authorities nor the funds required for the rapid prosecution of construction were forthcoming to any adequate extent."¹ In 1844, Sir Arthur Cotton reported on the question of irrigating the Godavari Delta, and the work was sanctioned in 1846. This system has been of untold value to the tract it irrigates. During the fifties and the sixties of the last century, the great inundation canal systems of Sind were restored, enlarged, and brought into working order. In the Bombay Presidency, storage works were undertaken, and the Mukti Tank was constructed in 1869. Efforts were made during this period to construct combined irrigation and navigation works by private enterprise, and these ended in failure involving a huge waste of capital and interest. But the most important move in the direction of pushing irrigation works came when the Secretary of State for India accepted the principle of financing productive works by loans raised in the open market. So long as heavy capital expenditure had to be incurred from revenues the progress of irrigation works was bound to be slow. Under this new policy five works of great magnitude, viz., the Sirhind, Lower Ganges, Agra, Lower Swat and Mutha Canals, and several smaller ones were taken in hand.

The Cauvery system is the largest delta system and is the most profitable of all the works in India. There are seven similar delta systems in Madras, and one in the delta of Mahanadi in Orissa. The Bari Doab Canal was the first of the modern works in the Punjab, commenced in 1850, and was followed up by a series of canal projects. Of these the Sutlej Valley project alone accounted for 533 miles of main and branch canals and about 3,000 miles of distributaries. The Haveli project, estimated to cost about Rs. 535 lakhs, was expected to yield a return of 8 per cent. on the expenditure involved. It was calculated to provide perennial irrigation over 5½ lakh acres and non-perennial irrigation over 4½ lakh acres, besides irrigating neighbouring tracts. The Triple Canal Project, which was completed some time ago, was regarded as one of the most brilliant feats of canal-engineering in India. Under this scheme, the excess waters of the Jhelum were taken off and carried to the Chenab and discharged into that river, and what remained after

Bari Doab
Canal.

Sutlej
Valley.

Triple
Canal
Project.

¹ *Irrigation in India*, p. 22.



was carried to the Ravi and poured over the Lower Bari Doab. This system irrigates nearly two million acres.

Punjab
Canal
Colonies.

Irrigation in the Punjab turned arid deserts into fertile fields. Millions of acres of wilderness were turned into areas of luxuriant crops, and a new population of a million people found homes in these areas. With their planned villages and towns, built up with the aid of modern science and organisation, coupled with state assistance and the beneficent activities of co-operative societies, the Punjab Canal colonies became the objects of envy to other provinces. They added not only to the economic prosperity of the people, but also led to a considerable increase in Punjab's revenue. They largely fulfilled Sir G. F. Wilson's prophecy that these colonies were calculated to become "the richest granaries of Asia, and afford scope for the rise of large and important industries among the sturdy and practical races of India". About one-fifth of the total area cultivated in the Punjab was colonised as a result of irrigation.

Storage
works.

The demand for storage works is the greatest in Bombay and Madras, where most of the rivers have short courses, and the rain, which frequently falls in heavy but brief storms, passes away rapidly. The reservoirs and tanks in the Bombay Presidency are constructed on hilly ground. The most important of these are Lake Fife and Lake Whiting, near Poona. In Bombay, the irrigation works have been unremunerative; but there is no province in India more liable to famine, and the extension of protective irrigation is urgently needed there. The Periyar system in the Madura district of Madras is the most interesting reservoir scheme in India. Irrigation canals are very few in West Bengal and those which exist are in a very bad state. Formerly, the head waters of the Bhagirathi were kept free by constant attention and this great river supplied water to the numerous rivulets and canals in the greater part of West Bengal.

Naviga-
tion
canals.

There are a few canal systems in India which were constructed for the sole purpose of navigation. These include the Circular and Eastern Canals in Bengal, the Orissa Coast Canal (including the tidal canal), and the Buckingham Canal in Madras. The length of such canals open for navigation in 1935-36 was 1,392 miles in Bengal, 1,365 miles in Madras, 412 in Uttar

Pradesh, 294 in Orissa, 197 in Bihar, and 163 in the Punjab. The largest quantity of cargo, amounting to $5\frac{1}{2}$ million tons out of an all-India total of 11 million tons, was carried by the Orissa canals. In point of value of cargo carried, however, the Madras canals come first with Bengal canals as a close second, having annually carried cargo valued at about 11 crores and 10·7 crores respectively out of a total of $22\frac{1}{2}$ crores.

For official purposes, irrigation works were formerly divided into two main classes—Major Works and Minor Works. Each of these main heads was again sub-divided into two subsidiary ones—(i) Productive and (ii) Protective. Those which were financially remunerative fell under the first sub-head; while those works were called protective, the revenue derived from which did not cover the interest on the capital expended. These latter were works which it was considered desirable to construct in order to help in producing food-grains as a protection against famine, and they were financed out of the Famine Relief and Insurance Grant of a crore and a half set apart every year.¹ With the introduction of the Montagu reforms, two important changes were made in regard to the classification of Government irrigation works. In the first place, irrigation was given the status of a provincial reserved subject. In the second place, the old and somewhat cumbersome classification of the individual works was given up. All works were classified as productive or unproductive. Productive works were such as would satisfy the condition that within ten years of the completion of construction they would produce sufficient revenue to cover their working expenses and the interest charges on their capital cost. All other works were classed as unproductive. The average cost per mile of irrigation works varied from Rs. 3,000 to Rs. 50,000.

During the year 1935-36, the area annually irrigated by state works alone rose to about 31 million acres, *i.e.*, about one-eighth of the total cultivated area in British India, as compared to about $10\frac{1}{2}$ million acres in 1878-79. The total capital outlay on

¹ Mr. Buckley said many years ago, "The financial test is not the only—or, indeed, the ruling—one which should be applied in order to determine whether a particular irrigation work should be constructed or not." The classification of irrigation works into productive and unproductive no longer relates to the source from which funds for their construction were provided.



irrigation and navigation works amounted to over Rs. 153 crores in 1935-36, as compared to Rs. 42½ crores in 1901-02. The gross revenue for the year was Rs. 14 crores and the working expenses about 5 crores, thus yielding a net return on capital of about 5·7 per cent. The estimated value of crops raised from areas served by state irrigation was about Rs. 1,100 crores.¹

It may be mentioned that in 1934-35, of the total area of 259 million acres sown (including area sown more than once), only 50½ million acres were irrigated, of which 22½ million acres were irrigated by Government canals, 3½ million acres by private canals, 6½ million acres by tanks, 12½ million acres by wells, and the rest by other sources. The area irrigated was the largest in the Punjab (14½ million acres, 9½ of which was due to Government canals), followed by the United Provinces (10½ million acres, 3½ of which was due to Government canals), and Madras (9½ million acres, 3½ of which was irrigated by Government canals).

In the percentage of area irrigated from Government sources to the total area sown, Sind led with a proportion of about 90 per cent., followed by the Punjab with 35 per cent., and Madras with 21 per cent. Bengal was the only province where the area irrigated was less than 1 per cent. of the total area sown.

Of about 300 irrigation schemes in operation in British India, 70 were of a major description and only a third was classified as unproductive. Special mention should be made of the following new major works: the Sukkur or Lloyd Barrage in Sind; the Sutlej Valley Project; and the Cauvery Reservoir and Mettur Project. The Mettur Dam, easily the first among those in India, is over a mile long and impounds a lake with a shoreline of 180 miles. It may be noted, however, that from the financial point of view, some of the canals have not proved quite remunerative.

Irrigation used at one time to produce a net revenue of about 1½ crores a year to the Government of India. It is now an important source of revenue to some of the provinces, e.g., the East Punjab, Madras, and Uttar Pradesh. The revenue is derived from the supply of water for the crops, besides certain subsidiary receipts, such as tolls for navigation, rents of fisheries,

¹ *Triennial Review of Irrigation in India, 1933-36.*

etc. The amount of revenue charged for irrigation does not depend on the volume of water supplied, but on the nature of the crop and the area irrigated. In the provinces of Upper India, and in parts of Bombay, the irrigation revenue is not assessed with the land revenue, but is distinct from it. It is assessed by irrigation officials, and consists of (i) occupier's rate, (ii) owner's rate, and (iii) enhancement of land revenue due to canals. In Madras, the system of consolidated rates—including both the land and the irrigation revenue—is followed.

The advantages of irrigation are manifold. It is a boon to the cultivators, for not only is the out-turn of their fields ensured in years of drought, but the amount of produce is very largely increased in ordinary years at a comparatively small cost. The landowners derive benefit from the works by the increased rentals they obtain. The advantages to the country as a whole¹ are that they protect large areas from the effects of famine, and increase the total food-supply of the people. Lastly, they are beneficial to the Government in this that, besides bringing increased revenue into its coffers, they help to lessen the miseries of the people, and thus remove one of the chief causes of popular discontent.

Benefits of irrigation.

An important line of development has for sometime past been brought to public notice by the rural electrification schemes in some parts of the country. In Uttar Pradesh under the grid system, convenient centres have been established all over the province to supply cheap electricity secured from water-power available in the course of the manipulation of irrigation water. In other parts of the country, hydro-electric power stations have been established. In Madras, Pykara, Mettur, and Papanasam power stations have a total capacity of about 1 lakh K.W. In Kashmere, the Jhelum has been harnessed. The Tata Hydro-electric Water Works supply Bombay and its textile industry with

U.P. grid system.

¹ In pleading for the restoration of the ancient irrigation works of Bengal, Sir William Willcocks claimed that it had "combated malaria, provided an abundant harvest of fish, enriched the soil and made congestion of the rivers impossible". He went so far as to declare that in the larger interests of the country and "as the irrigation canals have all worked for thousands of years", the interests of railways and roads must yield, whenever necessary, to the needs of irrigation. "The roads and railways, where they have crossed canals without allowing sufficient waterway, must provide the waterway, or, in the case of roads, make paved crossings and use ferries in flood" (*Ancient System of Irrigation in Bengal*).

250,000 H.P. Sivasumudram Works, which utilize the water of Cauvery, supply power to Kolar gold fields. Further developments in this line may in course of time revolutionise the agricultural and industrial outlook of those tracts where power can be generated out of the energy of running water. An enquiry into the water-power resources of India was made about fifteen years ago. A more up-to-date hydrographic survey is needed immediately, and this should be followed by well-considered schemes of hydro-electric development.

Need for
more
irrigation.

Although great progress has been made in irrigation, much yet remains to be done. Only a small percentage of the total supply of water has been utilised for the benefit of man.¹ In order to prevent the water of rivers and streams from flowing uselessly into the sea, many more canals and storage works will be needed. Agriculturists, too, should be encouraged with loans and grants to construct wells and reservoirs. It is also to be hoped that greater attention will be given to the improvement of internal navigation.²

2. WATER POWER DEVELOPMENT

Failure to
make full
use of
water-
power.

We now come to the multi-purpose river schemes. It has been rightly observed: "On taking stock of the water potential of India, we find that it is immense. Experts who have made elaborate surveys would have us believe that next to the U.S.A. India has the best water resources in the world. Hitherto only a few have been tapped. Although we have more acreage under irrigation than any country in the world we utilize only 6 per cent. of the flow of our rivers. India produces more energy from water than any other country of Asia, yet we are putting to use no more than

¹ This observation made by the Irrigation Commission of 1902 remains substantially true to the present day. "It is estimated that of the total rainfall on this continent, nearly 60 per cent. gets evaporated, about 40 per cent. passes through the river channels, and of this 40 per cent. barely 6 to 8 per cent. is utilised by the rural population for irrigating their fields." (Dr. Meghnad Saha, F.R.S., *Presidential Address to the National Institute of Sciences of India*, Calcutta, 1938).

² Lt.-Col. Sir Arthur Cotton said many years ago, "If 1,000 yards of cubic water can be made use of at a cost of 6d., and if its value, so applied, is 10s., there is no gold mine in the world that can be compared to an irrigation work." (*Lecture on Irrigation Works in India*, p. 1).

1½ per cent. of the water power available in our mighty rivers and the streams and waterfalls of the snow-clad Himalayas.”¹ Until recently, the Government had followed the policy of confining its river projects to irrigation and generation of electricity and had paid little attention to the full exploitation of the water power resources of the country. It never undertook to control floods or to provide navigation facilities. Such piecemeal exploitation of river resources yielded only limited benefits. The success of the Tennessee Valley Authority made it clear to all, that for the maximum utilization of the power of a river, a comprehensive multi-purpose project should be framed which should provide for irrigation, navigation; flood-control, hydro-electric power, pisci-culture and recreational facilities. Until a few years ago, the initiative for preparing river projects rested entirely with the provinces and there was no central organisation to prepare projects on major rivers which flowed through more than one province.

After the attainment of Independence the attention of the Central, Provincial and State Governments has been focussed on multi-purpose schemes and about 170 river and multi-purpose projects, big and small, have been in different stages of contemplation, planning or investigation. The total cost of all these projects together has been reported to exceed Rs. 1,200 crores. This plethora of plans was the result of unco-ordinated action by various provincial governments and a lack of idea as to the need of materials, finance, and technical man-power required for implementing the scheme.²

A Central Water-power, Irrigation and Navigation Commission was created to collect and collate all the data required for proper river planning. This body, in consultation with the Chief Engineers of Provinces and States approved of 46 projects which would be proceeded with and completed during the course of 7 years ending 1955-56. “Among these projects, 17 are expected to cost under Rs. 1 crore each, 16 between Rs. 1 and Rs. 5 crores each and 4 between Rs. 5 and Rs. 10 crores each.”

¹ Multi-purpose Projects in India—Damodar Valley—a pamphlet issued by the Publication Division, Ministry of Information and Broadcasting, Government of India.

² Commerce, Annual Review Number, 1949.



Important
major
projects.

The remaining nine are well-known major national projects costing between Rs. 10 crores and Rs. 100 crores or more each. The important major projects are: the Damodar Valley Project in West Bengal and Bihar; the Hirakud Project in Orissa; the Rihand Project in Uttar Pradesh, the Bhakra-Nangal Project in East Punjab, the Tunga-bhadra Project in Madras and Hyderabad, and the Mor Project in West Bengal.

The benefits accruing from these 46 projects were authoritatively reckoned as 173,000 tons of additional yield of food grains during 1950-51 which would increase almost eight-fold to about 1380,000 tons in 1955-56 and to 3 million tons later on every year on completion and an augmented output of hydro-electric energy to the extent of 1.85 million installed kilowatts, nearly doubling the present installed capacity of hydro-electric plants throughout the Indian Union.¹

Damodar
Valley
Project.

All these major and minor schemes are under construction. The outstanding one among them is the Damodar Valley Project. The river Damodar rises in the hills of Chotanagpur, flows through the Hazaribagh District, receives Bokaro, Konar and other affluents and enters Manbhum. At the point where it leaves Manbhum and touches the border of Bengal, it receives its principal tributary, the Barakar, from the north. It now becomes a mighty river, and after flowing through the Bankura, Hooghly and Howrah Districts enters the river Bhagirathi some 30 miles below Calcutta. As Damodar receives the heavy downpour of the monsoon months, which on an average, comes up to 47 inches annually, it often overflows its banks, after it has entered Bengal. These floods destroy crops, disrupt communications and dislocate the economic life of the people. But during the winter and summer months the volume of water in the river dwindles to almost a trickle so that irrigation is not possible. The project envisages the construction of 7 dams and a barrage for the regulation of stream flow. The barrage is to be located about 15 miles below Raniganj and will divert regulated flow into irrigation canals. The project will thus not only control floods but will also irrigate 1 million acres of land.

It has been estimated that the additional food that will come from the area will be about 50 lakh mds. of rice per annum.

¹ *Commerce, Annual Review Number, 1949, p. 1244.*

The gross money value of this output will amount to Rs. 5 crores at Rs. 10 per md. The cultivation of a second crop will also be possible. Even assuming that only one-half of the total irrigated area will grow a second crop the additional income should easily amount to 50 per cent. of the value of additional rice output as estimated above. Electric power generating stations have been planned at all the dams. The total capacity of all the hydro-electricity and thermal electric stations will be about 400,000 kw. With the elimination of floods and the supply of cheap power, new industries will grow up in this valley which is very rich in minerals. According to a special study made by the Geological Survey of India there is scope for no less than 110 industrial units of different types in this valley because of its mineral wealth. Already the Governments of Bihar, West Bengal and the Damodar Valley Corporation are jointly planning the development of several electro-chemical industries. Moreover the production of hydro-electricity, will facilitate the electrification of the railway system and lead to the conservation of high-grade coal which is now consumed by the railways. Numerous other benefits will also accrue from this project. An 80-mile long navigation channel has been proposed to be constructed which will carry goods and passengers between Calcutta and the coal-fields at economical rates.¹

The reservoirs, the river itself, and the irrigation canals will be eminently suitable for fish culture. The communities living on both sides of the river, who now suffer from acute shortage of drinking water in the dry season, will be assured of regular supply of water. Moreover Chotanagpur will be developed as a health resort.

It has been estimated that the scheme will cost Rs. 55 crores and would take 10 years to complete. The cost will be borne by the Central Government, the Government of West Bengal and the Government of Bihar and the profits are to be divided in proportion to the capital contributed. The execution and operation of the scheme has been entrusted to a board of three persons known as Damodar Valley Corporation.² Already some

¹ *Why the Damodar Scheme deserves the top priority*—a pamphlet issued by Damodar Valley Corporation.

² *Multi-purpose projects in India*—a pamphlet issued by Publication Section, Ministry of Information and Broadcasting, Government of India.



progress has been made and the construction of some of the dams is proceeding. Negotiations have been started for a loan of about 25 million dollars from the International Bank for Reconstruction and Development,¹ a part of which has already been obtained.

Hirakud
Project.

The Hirakud Project in Orissa envisages the training of the Mahanadi river in three different points entailing the construction of dams at Tikarapara, Naraj and Hirakud. The main dam will approximately be 3 miles long and will be situated near the town of Sambalpur with gravity and lift canals on either side and two hydro-electric installations. The project will have irrigation facilities for nearly 1.1 million acres of land mostly in Sambalpur District and enable the installation of two power houses of 320,000 K.W. The project is expected to bring about an annual increase of 3,40,000 tons of food production in Sambalpur District. The dam is expected to be completed by the end of 1954. The whole scheme is estimated to cost Rs. 47.81 crores.

Bhakra-
Nangal
Project.

The Bhakra-Nangal Project in East Punjab contemplates the construction of a dam at Bhakra and a weir at Nangal. The two power-houses will be situated 12 and 18 miles down stream of the weir. This project, when completed will irrigate 6.6 million acres of land and generate 400,000 K.W. of electrical energy. The construction of the dam is estimated to cost Rs. 70 crores and a weir in pre-Bhakra stage is estimated to cost Rs. 22 crores.² The progress of the scheme has been retarded by the partition and refugee problems and the dispute with Pakistan. The work on this project had to be stopped on account of the migration of the workers to Pakistan and was recommenced later in April, 1949. The plans for the dam have been completed and some Indian engineers have been deputed by the Government of India to U.S.A. to work out designs and estimates in consultation with American experts. The major obstacle now is the objection of Pakistan to execution of the scheme on the ground that it would affect its water supplies

¹ Report on the work of the Ministry of Works, Mines and Power, Government of India Publication.

² *New projects for irrigation and power in India, 1948*—Published by Central Board of Irrigation, Government of India.



and consequently agriculture. Thus this scheme which has been described as the second largest in the world has been held up.

The Kosi river project will comprise a dam in Nepal above the sacred temple of Baraha Kshetra, a power plant at the dam site, and irrigation canals, for irrigating about a million acres in Nepal territory, with a second barrage near Nepal-Bihar border for irrigating two million acres in Bihar. The project has been roughly estimated to cost 90 crores. Many experts have expressed their doubts about this scheme. The proposed dam site is said to be in the earthquake area. Moreover, on account of deforestation along the sides of Kosi river, some experts think, that the soil would not hold in its natural place and would slip down with the river water, fill up lake and make the dam useless.¹ The Tungabhadra project has been taken up jointly by Madras and Hyderabad. The total area to be irrigated in Madras will be 300,000 acres, and the cost of the project to Madras will be rupees ten crores.² The Mor project comprises the construction of a dam and a barrage with a canal on either bank of the river Maurakshi. The canals will command a total culturable area of nearly 600,000 acres. The cost of the scheme has been estimated at 7 crores. This scheme has already been taken in hand.

In addition to these projects, other projects which were under construction or under investigation in 1948, are given below²:—

<i>Name of the Projects.</i>	<i>Cost in rupees.</i>	<i>Acres of land to be irrigated.</i>	<i>Hydro-electric energy to be generated.</i>
<i>Madras.</i>			
Ramapadasagar Project ...	86 crores.	2.35 million acres.	120,000 K.W.
Krishna Power Project ...	118 „	3.1 million acres.	...
Lower Bhawani project ...	4 „	2 lakh acres.	...
Malampuzha project ...	3.8 crores.	...	...
Perur project ...	75 lakhs.	8,000 acres.	...
Pykara Plant Extension ...	3.6 crores.	...	212,000 K.W.
Moyar Hydro-Electric ³ Scheme	268 lakhs.	...	...

¹ *Commerce*, Annual Number, 1949, p. 1246.

² *New projects for irrigation and power in India, 1948*—published by the Central Board of Irrigation.

³ Three 12,000 k.w. turbogenerator sets will be installed.



<i>Name of the Projects.</i>	<i>Cost in rupees.</i>	<i>Acres of land to be irrigated.</i>	<i>Hydro-electric energy to be generated.</i>
<i>Mysore.</i>			
Mahatma Gandhi Hydro-electric Works.	5.7 crores.	...	120,000 K.W.
Bhadra Reservoir Scheme ...	8.88 crores.	180,000 acres.	12,680 K.W.
Kabini Scheme ...	1.3 crores.	20,000 "	...
<i>Patiala State.</i>			
Patiala project ...	5 "	...	16,000 K.W.
<i>Rajputana States.</i>			
Chambal Hydro-electric scheme (Holkar State)	22.5 "	1 lakh acres.	152,000 K.W.
<i>Uttar Pradesh.</i>			
Sarda Hydro-electric project	2.89 crores.	...	41,400 K.W.
Mohammadpur Power House	...	...	9,300 K.W.
Lalitpur Reservoir ...	27.3 lakhs.	...	...
Nagwa Dam ...	32.4 "	...	...
Sapra Dam Project ...	41 "	...	...
Piprai Dam Project ...	29 crores.	4 million acres.	230,000 K.W.
New Channels on the Sarda Canal System.	1.51 "	...	...
Yamuna Hydro-electric Project.	21 "	...	89,600 K.W.
Betwa Power Project ...	4.7 "	...	47,500 K.W.
Nayar Dam Project ...	24 "	238,000 acres.	232,000 K.W.
Gogra Power Project ...	...	...	300,000 K.W.
Ramganga Project ...	14 crores.	800,000 acres.	66,000 K.W.
Kothri Dam Project ...	...	...	5,000 K.W.
Pindar Hydro-electric project.	...	...	40,000 K.W.
Rihand Project ...	29 crores.	4 million acres.	230,000 K.W.
<i>West Bengal.</i>			
Jaldhaka Hydro-electric Scheme	...	...	10,000 K.W. in dry weather.
<i>Orissa and Madras.</i>			
Machkund River Project ...	8.4 crores.	...	100,000 K.W.
<i>Jaipur States.</i>			
Morel Irrigation Project ...	20 lakhs.	22,000 acres.	...
<i>Jodhpur State.</i>			
Jawai River Irrigation and Hydro-electric Project ...	1.67 crores.	...	4,100 K.W.
<i>Central Province and Berar.</i>			
Arha Reservoir ...	...	160,000 acres.	...
<i>Cochin State.</i>			
Peechi Reservoir Scheme ...	1.5 crores.	26,000 "	...
Chalakudy River Diversion Work.	60 lakhs.	23,131 "	...
Chalakudy River Scheme ...	20 crores.	6,000 "	1 lakh K.W.
Cheerakuzhee Scheme ...	16 "	7,000 "	...
<i>Gwalior.</i>			
Sindh River Project ...	...	...	16,000 K.W.
<i>Baroda State.</i>			
Zankhari Project ...	1 crore.	9,000 acres.	2,300 K.W.
Sabarmati Irrigation Project	2 "	45,000 "	6,000 K.W.

<i>Name of the Projects.</i>	<i>Cost in rupees.</i>	<i>Acres of land to be irrigated.</i>	<i>Hydro-electric energy to be generated.</i>
<i>Bhopal States.</i>			
Kolar Nadi Hydro-electric-cum-Irrigation Project.	4 "	96,000 "	16,500 K.W.
<i>Bihar.</i>			
Gandak Valley Project ...	2 to 3 crores.	600,000 acres.	...
Sakri Canal Project ...	17 lakhs.	50,000 "	...
<i>Bombay.</i>			
Meshwa Canal Project ...	18 lakhs.	10,000 "	...
Mahi Canal Project ...	3 crores.	120,000 "	...
Wardala Tank Project ...	11 lakhs.	4,500 "	...
Gangapur Dam Project ...	2.2 crores.	40,000 "	...
Girna Project ...	4 crores.	110,500 "	...
Asoga Reservoir Scheme ...	4.7 crores.	74,200 "	...
Daddi Project ...	20 "	400,000 "	...
Koyna Hydro-electric Scheme	...	...	250,000 K.W.
Kalinadi Hydro-electric Project.	...	...	350,000 K.W.
<i>Assam.¹</i>			

¹ In Assam it would be possible to generate up to 4 million k.w. of power by developing 11 sites on different rivers. A large number of minor projects under investigation will irrigate 300,000 acres.

On the 25th October 1950 the National Planning Commission submitted a report in which the estimate that India's 257 irrigation schemes, likely to cost about Rs. 1,900 crores, can be completed in the next 15 years..

Report
of the
National
Planning
Commission.

"With a proper plan of development, this should be possible," says a report on the development of irrigation and power in India.

No less than 135 schemes, estimated to cost Rs. 590 crores, are already under construction in different parts of the country. Twelve of them can be called major projects, costing over Rs. 10 crores each and Rs. 439 crores in all.

There are 24 medium sized projects, costing between Rs. 2 crores and Rs. 10 crores each and Rs. 103 crores in all. In addition, there are 99 smaller schemes whose total cost will be about Rs. 48 crores.

It will take six to 10 years before these projects are completed and a few more years for irrigation to be developed fully. Building up the load for the entire hydro-power potential would also take extra time.

By 1959-60, these schemes will irrigate 9.2m acres of land, yielding 3.1m tons in food grains and 910,000 kw of power.



Ultimately, these figures will rise to 12·9m acres, 4·3m tons of food grains and 1,996,000 kw of power.

This does not mean that benefits will not begin to accrue earlier. The annual improvement will be as follows:—

		Additional irrigation (million acres)	Additional food (million tons: based on present standard of agri- culture)	Additional power installed (kw)
1951-52	...	0·6	0·2	—
1952-53	...	1·1	0·4	351,000
1953-54	...	2·0	0·7	554,000
1954-55	...	4·3	1·4	556,000
1955-56	...	5·5	1·8	636,000
1956-57	...	6·7	2·2	708,000
1957-58	...	7·5	2·5	791,000
1958-59	...	8·5	2·8	817,000
1959-60	...	9·2	3·1	910,000
Ultimate	...	12·9	4·3	1,996,000

Cost of
projects.

The 12 major projects mentioned are: Damodar (Rs. 68 crores) for Bihar and West Bengal; Kakrapar (Rs. 12 crores) for Bombay; electricity schemes for Madhya Bharat (Rs. 12·63 crores); Machkund (Rs. 17 crores) for Madras and Orissa; Tungabhadra (Rs. 69·79 crores) for Madras and Hyderabad; Hirakud (Rs. 47·81 crores) for Orissa; Bhakra-Nangal (Rs. 132·91 crores) for Punjab (I), PEPSU and Bikaner; Harike (Rs. 18·8 crores) for Punjab (I); Sarda Power House (Rs. 11·21 crores) for Uttar Pradesh; Mor project (Rs. 15·50 crores) for West Bengal; Chambal (Rs. 28 crores) for Madhya Bharat and Rajasthan, and Lakhavalli (Rs. 18 crores) for Mysore. By 1959-60, the 12 schemes would begin to irrigate 7,049,000 acres of land and yield 7·63 million k.w. of firm power.

The 122 schemes on which work has not yet started are under various stages of investigation. They will cost Rs. 1,300 crores, providing irrigation facilities for an additional area of 42m acres.

The report does not consider that a total expenditure of Rs. 1,900 crores spread over 15 years for all the irrigation schemes is high. It concedes that an impression of high costs is likely to be created when it is recalled that the total expendi-



ture on all the irrigation works of undivided India was only Rs. 156 crores. This figure does not represent the present market value of these schemes which would be over Rs. 500 crores.

The report suggests that it would be possible to bring down the total cost of the schemes by Rs. 200 crores by spreading the power development part over a longer period than 15 years.

How are these schemes to be financed? The Planning Commission's report answers this question at great length, and suggests that an Irrigation Development Ways and Means Fund be created by each State. A definite sum of money could be put into it every year, either from general revenues or from loans or savings. To it should also be added loans and grants, if any, from the Central Fund as well as proceeds of levies. Financing schemes.

This fund, it is suggested, should be non-lapsible. All expenditure on irrigation and power projects should be met from it.

On the basis of available data, it is stated that the annual average contribution from all sources to this Irrigation Fund of some of the States should be of the following order:

Bihar Rs. 13 crores ; Bombay Rs. 14 crores ; Madhya Pradesh Rs. 11 crores ; Madras Rs. 24 crores ; Orissa Rs. 4 crores ; U.P. Rs. 9 crores ; West Bengal Rs. 8 crores ; Hyderabad Rs. 8 crores ; Madhya Bharat Rs. 3 crores ; Mysore Rs. 2 crores ; Rajasthan Rs. 5 crores ; PEPSU Rs. 1 crore ; Travancore-Cochin Rs. 5 crores.

The figures do not include the cost of the Damodar Valley, the Hirakud, the Bhakra and the Harike projects which will be financed entirely by the Central Government.

Another important suggestion made relates to the levying of a betterment fee. The value of land covered by the irrigation projects will naturally increase, not as a result of individual effort but by the co-operative activity of the community as a whole. "The individual who gains in this way can legitimately be expected to meet a part of the cost of the project and this contribution should be recovered from him either in a lump sum or over a number of years in which case he can pay from the benefits he derives from the facilities provided by the community." Betterment fee.

This betterment fee, it is stated, has been levied in the past in various parts and should be imposed wherever irrigation spreads.

It is worthy of note that some of these Projects mentioned in the Report of the Planning Commission were not included in the original list of Projects of 1948, while there are others which were included in the 1948 list but do not find a place in the list now published by the Commission. It should also be noticed that in the cases of most of the Projects costs estimated by the Commission are considerably larger than those estimated in 1948.

Irrigation is the most essential need of agriculture, while one of the basic conditions of successful industrial development is the supply of cheap motive power. The supply of coal and oil is limited in India, but the water-power resources of India are very extensive, being second only to those of the United States. Water-power possesses one great advantage over coal and oil. The supplies of coal and oil are exhaustible, but water-power is inexhaustible and perennial. So far only an insignificant portion of water-power has been tapped in India. If the water-power resources of the country are fully developed, this will go a long way towards the solution of the most important problems of both agriculture and industry.

CHAPTER XVIII

RURAL INDEBTEDNESS

1. THE BURDEN OF DEBT

REFERENCE has already been made to the existence of indebtedness among the agriculturists of India.¹ The investigations carried on by some responsible persons disclose the existence of appalling indebtedness under which the peasantry of the country groan. In the Bombay Presidency the Famine Commission of 1901 estimated that at least four-fifths of the cultivators were in debt. At a later date Dr. Harold Mann remarked about this Presidency: "This economic enquiry into the condition of the people of a typical dry Deccan village is disheartening. The debts are a crushing load on the people." He estimated that the average debt of the cultivators of a Bombay village is about Rs. 130.² In Bengal, it was calculated* by Mr. Jack that, in the district of Faridpur, 45 per cent. of the cultivators were in debt, and the average debt of each family was Rs. 121.³ In Southern India, in the Cochin State, it was pointed out that nearly 75 per cent. of the agriculturists were in debt.⁴ In the Punjab it was pointed out by Mr. Darling that only 17 per cent. of the people were free of debt, and the average debt per indebted proprietor was Rs. 463.⁵

The Central Banking Enquiry Committee in 1931 roughly estimated the total rural indebtedness at Rs. 900 crores, distributed as follows: Assam, 22 crores; Bengal, 100 crores; Bihar and Orissa, 155 crores; Bombay, 81 crores; Burma, 50-60 crores; Central Areas, 18 crores; Central Provinces, 36 crores; Coorg, 35-55 lakhs; Madras, 150 crores; Punjab, 135 crores; and United Provinces, 124 crores. The Committee noted that there was a consensus of opinion that the volume had been increasing

Estimates
of indebt-
edness in
1931.

¹ Chapter on 'Distribution', Part I.

² Mann, *Land and Labour in a Deccan Village*, p. 130.

³ Jack, *Economic Life of a Bengal District*, p. 98.

⁴ Slater, *Some South Indian Villages*, p. 137.

⁵ Darling, *The Punjab Peasant in Prosperity and Debt*, p. 5.

gradually in the course of the last hundred years. The Agricultural Credit Department of the Reserve Bank of India in a survey of the position undertaken in 1937 noted that the burden of this indebtedness had really become "much more crushing than could be judged from a comparison of the growth of its volume in rupees," owing to the great depression. There is no doubt that the figures of the Banking Enquiry Committee must have doubled, due to the accumulation of interest, not to speak of the principal debt; to which was added further debt incurred due to distress and, in particular, low agricultural prices.

The rigour of the problem has been greatly eased by the impact of the late war. The war-time rise of agrarian prices carried the rural economy up from the depth of the depression, and the prosperity enabled the reduction of a significant part of the aggregate rural debts. There was a decrease in indebtedness between 1942 and 1945, especially among holders of large agricultural holdings. Relatively large increases allowed in the control prices of farm products, together with profitable export opportunities in the three years since 1946 must have gone towards a further reduction of the volume of agricultural indebtedness.

To what extent rural indebtedness is due to thriftlessness or extravagance on the part of raiyats cannot be definitely asserted, but there is no denying the fact that there is an inherent defect in the credit organisation of the country. The dependence upon the village money-lenders and the usurious rates of interest charged by them are sapping the foundations of the rural prosperity of the country.

2. THE CO-OPERATIVE MOVEMENT

Credit—an
absolute
necessity
in India.

It is a recognised fact that credit is an absolute necessity in all agricultural countries, and particularly in India. Easy and cheap credit, however, has a great danger. It may lead to reckless borrowing, which would mean the ultimate ruin of the borrower. In order to supply the agriculturist with easy and cheap credit, at the same time eliminating the danger of reckless borrowing, philanthropists in Europe tried various schemes about the middle of the last century. Of these, the schemes of

Raiffeisen and Schulze-Delitzsch have proved the most successful. Many years ago, Sir William Wedderburn, Justice Ranade, and other statesmen advocated the establishment of credit institutions in India on the lines of these societies. In 1892, the subject attracted the attention of the Government of India, and they appointed Mr. (afterwards Sir) Frederick Nicholson to enquire and report on the matter. His Report was submitted in 1895. He said in the Report: "The lesson of universal agricultural history is that an essential of agriculture is credit. Neither the condition of the country, nor the nature of the land tenures, nor the position of agriculture, affects the one great fact, that agriculturists must borrow. This study assumes as axiomatic that the peasantry of India have, by the very conditions of their existence in tenure, to borrow, and borrow freely, annually, and continuously."¹

Sir F.
Nichol-
son's
Report.

Nicholson suggested the introduction of Co-operative Credit Societies on the German model, for he realised that the State or Central Banks would of necessity be situated far away from the village, and thus would not possess the advantages which are possessed by Village Banks.² These are:

Advant-
tages of
Village
Banks.

- (i) Absolute proximity to the borrower.
- (ii) Their ability to excite local confidence and consequently to draw in local capital.
- (iii) Their exact knowledge of the clients and their influence over them as co-villagers.
- (iv) Their ability to work cheaply—almost gratuitously—and thus to provide cheap credit.
- (v) Retention of local capital and all profits thereon within the village.
- (vi) Their ability to act as agents and brokers for their members in the sale of produce and purchase of necessities.
- (vii) Their capacity for acting as village granaries.
- (viii) Their ability to act as intermediaries between the state and the individual in agricultural or industrial developments, or in times of seasonal stress.

¹ For an account of the co-operative societies in Europe, see Wolff, *People's Banks*, and Fay, *Co-operation at Home and Abroad*.

² *Vide* Sir F. Nicholson's Report.



(ix) Their power of influencing borrowers towards the true use of credit and of watching the utilisation of loans in accordance with contract.

(x) Their ability to prevent fraudulent default.

(xi) Their steady educative influence in matters of thrift, association, and self-help.

(xii) Their tendency to develop high forms of individual capacity, public life, and national character.

Co-operative
Societies
Acts, 1904
and 1912.

When the Government of India became fully convinced of the benefits of such institutions, the Co-operative Credit Societies Act was passed in 1904, with the hearty approval of all sections of the community. This Act divided the Societies into (1) Central, (2) Urban, and (3) Rural. The Co-operative Societies Act of 1912, however, substituted for the distinction between Urban and Rural Societies the division of Societies into (i) those with Limited Liability, (ii) those with Unlimited Liability. It also authorised the registration of co-operative associations for purposes other than credit. Under its provisions, unless the Local Government by general or special order otherwise directs,

Limited
and Un-
limited
Liability
Societies.

(i) The liability of a society of which a member is a society is limited ; and

(ii) The liability of a society of which the object is the creation of funds to be lent to its members, and of which the majority of the members are agriculturists, and of which no member is a registered society, is unlimited.

Registra-
tion.

The conditions of registration are (i) that not less than ten persons can form a society, (ii) they must be above the age of 18 years, and (iii) they must either reside in the same town or village or group of villages, or must belong to the same tribe, class, caste, or occupation.

Manage-
ment.

It is contemplated that the management of these societies should be democratic. It should be in the hands of the members themselves, who ought to appoint from their own body a Committee to do the work for one year. The members of the Managing Committee receive no remuneration for their work. No member has usually more than one vote ; but where the liability is limited, a member may have more than one vote, if prescribed by the bye-laws.



The accounts of every Society are audited by, or by order of, the Registrar, who at all times has access to all the books, accounts, papers, etc. Audit and Supervision.

The main privileges of these Societies are:

Privileges.

(a) They are bodies corporate, that is to say, they have perpetual succession, common seal, legal right to make contracts, etc.

(b) A registered Society is entitled in priority to other creditors to enforce any outstanding demand due to the Society from a member or a past member (subject to any prior claim of the Government in respect of Land Revenue).

(c) The shares are not liable to attachment.

(d) On the death of a member, his share is transferred to his heir.

(e) The Societies may be exempted from the payment of income-tax, stamp duty, and registration fees.

As the members have privileges, they have liabilities. These liabilities are limited, or unlimited, according to the class into which a Society falls. A past member is liable for the debts of a Society for a period of two years, and the estate of a deceased member is liable for one year. Liabilities.

There are certain restrictions on lending and borrowing. No Society with unlimited liability is permitted to lend money on the security of movable property. The Provincial Government may also impose other restrictions. Borrowing must be made to such an extent and under such conditions as may be prescribed by the bye-laws. Restrictions on work.

The funds of the Societies may be invested in the Government Savings Banks, in any of the institutions prescribed by the Indian Trusts Act, in the shares or in the securities any other registered Society, with any Bank or person approved by the Registrar, or in any other way permitted by the bye-laws. Investment of funds.

No part of the funds may be divided by way of *bonus* or *dividend* or otherwise among its members; provided that after one-fourth of the net profits in any year has been carried to a *Reserve Fund*, payment from the remainder of such profits and from profits of past years may be made among the members to such extent and under such conditions as may be prescribed by the bye-laws; provided also that in the case of a Society Use of profits.

with unlimited liability, no distribution of profits may be made without the order of the Provincial Government. Such Societies may, with the sanction of the Registrar, after one-fourth of the net profits has been carried to a Reserve Fund, contribute an amount not exceeding 10 per cent. of the remaining profits to charitable purposes.

Provincial Acts.

Closely following the Act of 1912, came the enquiry by the Maclagan Committee. The Maclagan Report of 1915 made several significant proposals for the strengthening of the movement, one of the most important being the establishment of Provincial Co-operative Banks.

Under the constitutional changes introduced by the Government of India Act of 1919, co-operation came under the control of a Minister, as it became a transferred provincial subject. Several provinces, notably Bombay, Bihar and Orissa, and Madras, have replaced the Act of 1912 by local legislation. Such legislation is also contemplated in Bengal and other provinces.

The progress and problems of the movement have, in recent years, been the subject of serious examination by provincial committees, besides the Agriculture Commission, the Central and Provincial Banking Enquiry Committees, and the Reserve Bank of India.

Financing of Societies.

The Co-operative Societies in India were from the very beginning handicapped for lack of funds. The growth of deposits was not encouraging, nor was it possible for Societies to borrow from the general money-market. In order to finance the Co-operative Credit Societies a new type of bank was felt necessary to link them with the money-market, and central agencies developed as a consequence. The Act of 1904 did not provide for the registration of Central Banks, which was, however, remedied by the Act of 1912. These Central Banks, as the Maclagan Committee suggested, should confine themselves to financing primary societies and serving as their balancing centres. The Central Banks have now been linked with a Provincial Co-operative Bank located in the chief money-market centre of the province. Thus an organisation has been built up through which the funds of the commercial centres may percolate to the villages to finance the vital industry of the country.

The potentialities of the co-operative movement have been amply demonstrated by the steady growth of Societies among the rural population of India. In 1914, the Government of India said with a sense of pride: "Ten years ago there was nothing beyond a few scattered experiments to indicate the presence of the Co-operative movement in India. Today there are over 12,000 Societies with nearly 600,000 members with a working capital of 5 crores of rupees, and co-operation has firmly established itself as a powerful factor in the material and moral welfare of the people."¹

Progress
of Co-
operative
Credit.

From that date to 1938-39, the number of members increased steadily, though slowly, but there was not a steady improvement in the financial position of the co-operative organisation taken as a whole.

During the years, 1939-46, inspite of very substantial development on the non-credit side, especially during the period of World War II, agricultural credit societies continued to maintain a preponderant position. In 1947-48, credit societies constituted 66.4 per cent. of the total number of primary societies in India.

The societies were of the following principal varieties: agricultural credit societies, non-agricultural credit societies, central banks and banking unions, provincial banks, multi-purpose societies, primary consumers' societies, industrial societies, land mortgage banks, milk societies, etc.

The agricultural societies are important, in view of their large number but also of the place they occupy in the economic life of the country. Their business is to help the cultivators with funds. The activities of primary non-agricultural societies are smaller in volume. These are formed mostly in towns. The financing agencies of co-operative societies are the Central and Provincial Banks. The main function of Central Banks is two-fold, namely, (1) the balancing of funds of primary societies and (2) the supply of capital. In order to co-ordinate the operation of Central Banks an apex financing institution is needed in every province, for in the absence of a Provincial Bank, the work of the Central Banks can hardly be performed with efficiency and economy. The main object of a Provincial Bank

¹ Resolution, dated the 17th June, 1914.

is thus the direction of the financial system of co-operation in a province, with the aid of the Central Banks. Almost all the provinces of India have now their Provincial Banks and steps are being taken to establish such Banks in the States which do not possess such institutions at present. Most of the States of India, have now their Provincial Banks.

The number, membership, activity and financial position of each of these categories of banks may be gathered from the Tables given below:

TABLE A

Agricultural Credit Societies

(1947-48)

1. Number	...	...	...	85,260
2. Membership	...	...	...	34,82,852
				(Rupees in lakhs)
3. Owned funds	...	...	...	1,134.95
4. Borrowed funds:				
(a) Deposits from members	...	...	...	174.01
(b) Deposits from non-members	...	...	...	130.28
(c) Other borrowings	...	...	...	947.45
5. Working Capital	...	...	...	2,386.69
6. Loans issued	...	...	...	1,045.14
7. Loans recovered	...	...	...	815.39
8. Loans outstanding	...	...	...	1,601.55
9. Overdues	...	...	...	393.23
10. Non-credit activities:				
(a) Sale of goods to members	...	...	...	783.16
(b) Purchase of members' products	...	...	...	404.33

TABLE B

Non-Agricultural Credit Societies

(1947-48)

1. Number	6,505
2. Membership	17,02,255
				(Rupees in lakhs)
3. Owned funds	1,232.96

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TABLE B—*Contd.*

4. Borrowed funds:				
(a) Deposits	2,755·19
(b) Other borrowings	208·86
5. Working Capital	...	...	...	4,196·99
6. Loans issued	...	...	...	2,830·86
7. Loans recovered	...	...	...	2,480·87
8. Loans outstanding	...	...	...	2,462·26
9. Overdues	...	...	...	197·28

TABLE C

Provincial Banks.

(1947-48)

1. Number	...	...	...	11
2. Membership:				
(a) Individuals	...	...	...	6,508
(b) Banks and Societies	...	...	...	8,505
				(Rupees in lakhs)
3. Owned funds	...	...	...	260·09
4. Borrowed funds:				
(a) Deposits	...	...	...	2,006·47
(b) Other borrowings	...	...	...	138·80
5. Working Capital	...	...	...	2,405·37
6. Investments	...	...	...	1,142·97
7. Loans issued:				
(a) Individuals	...	...	...	685·09
(b) Banks and Societies	...	...	...	1,587·64
8. Loans recovered:				
(a) Individuals	...	...	...	644·45
(b) Banks and Societies	...	...	...	1,620·42
9. Loans outstanding:				
(a) Individuals	...	...	...	205·73
(b) Banks and Societies	...	...	...	690·20
10. Overdues	...	...	...	21·25

TABLE D

Central Banks and Banking Unions.

(1947-48)

1. Number	...	...	...	448
2. Membership:				
(a) Individuals	...	...	...	72,880
(b) Banks and Societies	...	...	...	86,892
				(Rupees in lakhs)
3. Owned funds	...	...	...	649·64
4. Borrowed funds:				
(a) Deposits	...	...	...	2,838·66
(b) Other borrowings	...	...	...	533·97
5. Working Capital	...	...	...	4,022·32
6. Investments	...	...	...	864·40
7. Loans issued:				
(a) Individuals	...	...	...	435·90
(b) Banks and Societies	...	...	...	5,750·69
8. Loans recovered:				
(a) Individuals	...	...	...	441·12
(b) Banks and Societies	...	...	...	5,543·58
9. Loans outstanding:				
(a) Individuals	...	...	...	176·62
(b) Banks and Societies	...	...	...	1,926·62
10. Overdues	...	...	...	218·54

Short-comings.

It is evident from the figures given above that the development of the co-operative movement has so far been considerable. But the rate of progress has been exceedingly slow. The population of the country is so large that the movement may be said to have only touched the fringe of the problem. In order that an appreciable impression may be made on the economic life of rural India, funds must be forthcoming on a much larger scale. Besides, there are certain defects in its financial system, the most serious of which are an absence of elasticity, irregularity in collection, accumulation of overdues, and a defective system of audit. While the difficulty of providing adequate fluid resources is great, the drawback due to



the lack of proper education of members in the ideals and working of the co-operative movement is no less a hindrance.

Another drawback of the existing system of co-operative finance is the inadequate provision so far made for long-term credit. The necessity for such credit is already great, and is likely to be greater in future. If agriculture is to be a profitable industry, the results of science and education must be applied to it. For this purpose, loans ought to be made available to cultivators for fairly long periods. Another purpose for which cultivators in India require credit is the liquidation of old debts. It is a well-known fact that agriculturists are, as a rule, heavily involved in debt. So long as these loads are not lifted from their shoulders, they will continue to drag their dull and dreary existence, without hope and without energy.

The existing resources of co-operative organisations are insufficient for the granting of long-term loans on an extensive scale. Nor is the nature of the funds at their disposal such as to allow of investment for long periods. With a view to meeting these difficulties, special institutions known as Land Mortgage Banks have been established in most of the States, notably Madras, Bombay, East Punjab, Assam and West Bengal. These banks are financed by the issue of long-term debentures (bonds), the principal of, and interest on, which are being guaranteed by Provincial Governments. Long-term deposits and share-capital are other sources from which funds are secured by the banks. On the security of the land, loans are being granted for periods ranging from 5 to 30 years, the amount of loan usually not exceeding half the estimated value of the land. These loans are advanced mainly to redeem old debts, to help the purchase of land, or to finance the purchase of implements and the improvement of cultivation, etc.

Land
Mortgage
Banks.

The Central Banking Enquiry Committee, while enthusiastically advocating the establishment of Land Mortgage Banks on a co-operative basis, warned that the working of the primary co-operative credit societies and land mortgage banks should be entirely kept separate. They also advocated the establishment of Provincial Land Mortgage Corporations, to function as apex institutions controlling the primary and district banks, and also as the authority for issuing debentures. While action has been



taken on these lines in certain States, especially Madras, in the other provinces the combination of functions still continues. This should cease as early as possible.

The following table gives details regarding the number, membership, etc. of the

Land Mortgage Banks

(1947-48)

			Central Land Mortgage Banks	Primary Land Mort- gage Banks
1. Number	...	...	5	260
2. Membership	...	...	7,194	1,50,495
3. Owned funds	...	...	(Rupees in lakhs) 47·69	48·14
4. Borrowed funds:				
(a) Loans	...	...	6·52	383·87
(b) Deposits	...	...	44·43	1·76
(c) Debentures	...	...	425·60	6·50
5. Working Capital	...	...	524·24	440·27
6. Loans issued	...	...	77·59	82·90
7. Loans recovered	...	...	34·92	35·12
8. Loans outstanding	...	...	385·38	404·57
9. Overdues	...	...	0·65	3·05

Reorganiza-
tion of the
Primary
Society.

During World War II, the non-credit aspect of the co-operative movement received some stimulus. While number of agricultural credit and non-agricultural credit Societies decreased from 93·8 thousand and 6·7 thousand in 1938-39 to 85·2 thousand and 6·5 thousand respectively in 1947-48, the number of non-credit Societies in the two categories rose from 11·5 thousand and 8·8 thousand in 1938-39 to 22·8 thousand and 16·3 thousand respectively in 1945-46. But the movement in India is still essentially a credit movement and the primary society which forms the basis of the co-operative structure has restricted itself almost entirely to the role of supplying credit. But the supply of credit embraces only one particular aspect of the cultivator's life. The primary society, according to the Co-operative Planning Committee of 1947, should therefore be reorganised so as to take into account all aspects of his life as a whole. This is possible only when primary co-operative societies

Report of
the Co-
operative
Planning
Committee.



undertake multiple objectives. That is, the village societies should undertake all those activities which affect the daily life and business of the agriculturists and artisans instead of confining themselves merely to the business of providing credit. The Committee's recommendations are that the reorganised and reformed primary society should serve as a centre for the general economic improvement of its members and should, in particular, (1) finance crop production, (2) act as agent for the sale of crop to the nearest co-operative marketing organisation, (3) supply the farmer's simple needs for crop production like seed, cattle feed, fertiliser and agricultural implements, and also consumers' goods like cloth, kerosene, salt and matches on indent basis or on the basis of established needs, (4) serve as milk collecting station for the nearest dairy and as a centre for animal first-aid and the maintenance of stud bulls, (5) serve as a centre for the maintenance of agricultural machinery for the joint use of members and encourage subsidiary occupations for its members.

Multi-purpose Society.

The membership should be open to all persons residing within the area of its operation and should consist of at least 50 persons. An attempt should be made to bring 50 per cent. of the villages and 30 per cent. of the rural population within the ambit of the reorganised primary societies during the next 10 years. Limited liability should be adopted as the basis of these reformed primary societies, except where unlimited liability has produced good results. In most provinces the trend of thought is in favour of limited liability. The liability should however be limited either to the value of shares held by a member or to a multiple thereof, provided that a substantial part of the share capital of the society can be raised through share capital.¹

The need for the extension of the functions of the credit societies beyond the domain of credit to the sphere of non-credit business is very great. Already, certain States such as Madras, Bombay, and Uttar Pradesh have made considerable progress in this direction. In Madras, the policy followed is to develop multi-purpose activities in rural credit societies and not necessarily by organising multi-purpose societies separately.

¹ *Report of the Co-operative Planning Committee*, pp. 19-23.



In Bombay, efforts are made to organise more multi-purpose societies in accordance with the recommendations of the Agricultural Credit Organisation Committee which suggested that the normal policy should be to organise multi-purpose societies only, and to convert the existing village primaries into multi-purpose societies, preferably on the same liability. The Committee stated that such societies should satisfy the normal cultivation needs of their members as well as the supply of credit for agricultural needs. They should also serve as agencies for supply and sale, and as they develop their capacity, in course of time, should also act as consumers' societies.

The number of multi-purpose societies in the Bombay State rose from 414 in 1946-47 to 655 in 1947-48. The most important developments in multi-purpose activities, however, are noticed in Uttar Pradesh, under the Development Co-ordination Plan, which came into operation in April, 1947. The objective of the Plan is the speedy and satisfactory provision of the primary needs of the people through the Co-operative Movement. A co-ordinated and coherent machinery has been evolved for the attainment of this objective. Multipurpose societies also exist in West Bengal, Bihar, C. P. and Berar, Ajmere-Marwara, and a few of the Part II States such as Baroda and Travancore.

The following Table gives all relevant facts about.

Multi-Purpose Societies

(1947-48)

1. Number	...	...	...	18,162
2. Membership	...	...	...	5,77,386
3. Deposits:				(Rupees in lakhs)
(a) Members	...	...	...	21.05
(b) Non-members	...	...	...	12.34
4. Working Capital	...	...	...	279.28
5. Loans issued	...	...	...	197.24
6. Loans recovered	...	...	...	141.58
7. Loans outstanding	...	...	...	170.63
8. Overdues	...	...	...	21.64
9. Sale of goods	...	...	...	351.87
10. Purchase of goods	...	...	...	163.13

It is held by some that the formation of an All-India Co-operative Bank is desirable, which would be in a better position to co-ordinate the activities of all types of co-operative organisations and to attract large investments. They urge that the Provincial Co-operative Banks and Land Mortgage Banks should be affiliated to such a body. It will command large resources, and be able to balance the funds of co-operative organisations throughout the country, the surplus of one province being utilised to make good the deficiency of another.

All-India
Co-operative
Bank.

It should be noted that, in spite of provincialisation, opportunities for reviewing the movement from a national point of view and for the exchange of ideas are steadily being provided, by means of Registrars' Conferences, and the publications and conferences organised by the All-India Co-operative Institutes Association and the Indian Provincial Co-operative Banks Association.

The international aspect of co-operation should not be lost sight of. Nearly a quarter of a century ago it was urged that an International Co-operative Bank be established. Mention should also be made of bodies like the Horace Plunkett Foundation and the International Co-operative Alliance, which seek to promote the solidarity and efficiency of the movement on an international scale by celebrating annually the International Co-operators' Day, issuing literature and organising conferences.

Inter-
national
contact.

The co-operative movement has been productive of considerable good to the country. In respect of economic benefits, it has been calculated that in interest alone the agriculturists, by taking loans from the Co-operative Societies instead of from the village money-lenders, are saving a large amount. Besides, with the progress of co-operation and with credit democratised, money that used to lie in hoards has been released and placed in deposit, capital that would otherwise have been inaccessible has come into the hands of the agriculturist, and old debts have been liquidated in a number of cases. Co-operation has placed within reach of many cultivators cheap manures and implements, it has tended to help improvement in the breed of cattle, and it has provided the means by which useful information can be disseminated. In Bombay, societies for the hire of cane-

Economic
benefits.



crushers, for the maintenance of oil engines for lifting water, have been established. Cultivation and sale of sugar-cane on a co-operative basis are being attempted in some of the States. Another significant development is in connection with insurance. In several States steps have recently been taken in this matter. It will be interesting to watch the progress of co-operative activities in directions other than credit, particularly in the neglected sphere of consumers' co-operation.

Intellectual and moral benefits.

The intellectual and moral benefits have also been immense. The need for signing promissory notes and of keeping accounts has led to a demand for literacy. The criterion for admission into these Societies being a man's character, they have influenced the conduct and behaviour of the members. They have promoted thrift. The fact that the members are responsible for the payment of each other's debts acted as a sort of check on expenditure for unproductive purposes. In some places, litigation has markedly decreased. In others, surplus funds have been used to start schools, to provide scholarships, to supply drinking-water, and to clean roads.

Draw-backs.

But the great drawback of the existing system of working of the movement is that sufficient attention is not paid to the basic principles of co-operation. The co-operative movement ought essentially to be a moral and social movement. But the fact that, after the lapse of nearly half a century, a rigid governmental control has to be maintained over its working shows that the fundamental aspects of the question have been sadly neglected. Co-operation, to be successful, must be founded on self-help, self-reliance and mutual trust, but it does not seem that sufficient stress has so far been laid on the development of these qualities. So long as the foundations remain weak, a strong and massive superstructure can never be erected. What is, therefore, immediately needed is to take steps to imbue the minds and hearts of the rural population with the true spirit and ideal of co-operation. Unless this is done, the co-operative movement, instead of permeating the inner life of the people, will only affect a small part of its outer existence. If, however, the right goal is kept in view, co-operation will strengthen the moral and social fabric of the country and help in reviving the

True spirit and ideal.



village corporate life which has been shattered completely by the influence of Western ideas and ideals.

The problem of agricultural credit has defied a satisfactory solution in this country, though various Committees and Commissions have indicated the lines on which its solution should be attempted. A few years ago a sub-committee of the Agricultural Policy Committee under the Chairmanship of Prof. D. R. Gadgil examined the problem afresh and made detailed recommendations. The Gadgil Committee's recommendation that an Agricultural Credit Corporation should be established deserves special mention. Gadgil Committee.

The Committee pointed out that private credit institutions participating in agricultural finance had not developed much in India, nor was the co-operative movement able to meet all the rural requirements of credit. It was also not desirable to extend the present system of state loans, owing to the defects associated with it such as the delay in distribution of loans, corruption of the low-paid revenue officials, rigidity of collection etc. It was, therefore, necessary to provide a new source of finance on reasonable terms as an alternative to the present moneylender. The Gadgil Committee was of opinion that such a financing agency should be an autonomous public corporation established by the Government in all provinces and working under its general direction and supervision. The Corporation should provide all types of agricultural credit. The agricultural credit corporation should deal with the more substantial cultivators directly. The smaller cultivators should be persuaded to form themselves into co-operative societies and the corporation may finance these co-operative organisations. The Committee further suggested that in India the charges for agricultural credit were particularly high and that the corporation should provide short-term finance at a rate of $6\frac{1}{4}$ per cent. and long-term finance at 4 per cent. The corporation should be given State assistance to enable it to meet all the varied financial needs of agriculture.

The Government of India appointed a Co-operative Planning Committee in 1945 "to draw up a plan of co-operative development." This Committee submitted its report in 1946. It emphasized that the expansion of the co-operative movement Co-operative Planning Committee (1945-46).

would provide the best solution of the problem of rural credit in the country. The Co-operative Planning Committee differed from the Gadgil Committee in the matter of the setting up of a separate financial agency like the agricultural credit corporation to which, the Gadgil Committee had recommended liberal State assistance should be provided. The Co-operative Planning Committee, however, was of opinion that the Provincial Co-operative Bank or other central co-operative financing organisation could provide the agriculturist with all the facilities which were intended to be given by the agricultural credit corporation. It recommended that rather than start a separate organisation like the agricultural credit corporation all types of aid should be given to the Provincial Co-operative Bank to fulfil its function properly. The Planning Committee thought it to be a distinct advantage in reorganising the Provincial Co-operative Bank rather than establishing a separate institution like the agricultural credit corporation, for the following reasons: first, much valuable time might be lost in preparing a scheme, in passing the necessary legislation and in complying with other formalities before a new institution like the agricultural credit corporation could be brought into existence. But the provincial co-operative bank and other central co-operative financing organisations were already in existence and might be asked to shoulder the additional burdens immediately. Secondly, the agricultural credit corporation was intended to deal with the agriculturist through the medium of co-operative organizations; but the Provincial Co-operative Bank had a distinct advantage in this respect, since it had already had considerable experience in dealing with these societies. Thirdly, the object of the Gadgil Committee to provide a larger number of agriculturists with institutional credit as an alternative to money-lender's credit may be achieved by increasing the number of rural credit societies and expanding their functions. Fourthly, an agricultural credit corporation which did not provide adequate representation in the management to those in need of credit was likely to be dominated by lenders. The Committee, however, felt that it would be necessary to reorganise the Provincial Co-operative Bank so that it might fulfil its functions.



3. DEBT LEGISLATION

For some time past, increasing reliance has been placed by many Provincial Governments on legislation for the relief of indebtedness. We have in a previous chapter¹ mentioned some of the steps taken in the past in this direction. Notwithstanding these legislative measures, the burden of indebtedness has steadily been on the increase. With regard to the Usurious Loans Act, the Royal Commission on Agriculture observed that it has been "practically a dead letter in all provinces". The Commission recommended to the consideration of Provincial Governments the case for a simple Rural Insolvency Act, the enactment of legislation for the restriction of the powers of moneylenders, the establishment of conciliation boards and similar measures to alleviate the situation. These suggestions were supplemented in the valuable reports of the Central and Provincial Banking Enquiry Committees.

As a result there was a crop of legislation in most provinces and some measures were under consideration in others. A review of the laws, which were enacted in the thirties, revealed the following underlying objects: (1) control of moneylending; (2) scaling down of old debts, and (3) liquidation of old debts. With a view to controlling moneylenders and their operations, provision was made for the registration or licensing of moneylenders, the regulation of accounts, and the fixation of maximum rates of interest. For instance, while in the Central Provinces and in Bihar certificates of registration on payment of the requisite fee was made compulsory, in Bombay a more elaborate procedure was laid down for licensing moneylenders who are required to pay fees on a progressively rising scale. Though details varied from province to province, most provinces required moneylenders to maintain regular account books and to furnish periodic statement of accounts to every debtor. Similarly, the maximum rate of interest prescribed by law varied from a minimum of $6\frac{1}{4}$ per cent. in Madras to 15 per cent. in Bengal for secured loans, and from $6\frac{1}{4}$ per cent. in Madras to 25 per cent. in Bengal for unsecured loans. The United Provinces Agriculturists' Relief Act (1934) provided for the novel principle

Object of recent legislation.

Control of usury.

Vide Part I, the Chapter on 'Distribution'.





of a progressively diminishing rate of interest as the amount of loan increased.

Debt con-
ciliation.

A more radical remedy was the establishment of Debt Conciliation Boards, seeking to scale down debts, on a voluntary basis. Such Boards were working in the Central Provinces, the Punjab, Assam, Bengal and Madras, and their duty was to institute enquiries in the case of every debtor or creditor applying for relief and equitably adjust the debts. These Boards enjoyed certain powers of civil courts. They could issue certificates, usually if creditors to whom 40 per cent. or more of the total debts were due agreed to a settlement, the Boards undertaking to collect the agreed instalments, on the basis of a small commission. Later, however, the method of compulsory scaling down of debts, *i.e.*, irrespective of any agreement with the creditors, was adopted, notably in the Madras Agriculturists' Relief Act (1937). Other Acts which provided for compulsory scaling down of debts were the C.P. and Berar Debt Relief Act (1939), the U.P. Agriculturist Debt Relief Act, 1939, and the Bombay Agricultural Debtors' Act, (1939). The effect of these measures of legislation has been described by two well-known experts in the following words: "In general, the element of compulsion has always proved to be a better alternative to amicable settlement."¹

Liquida-
tion of
past debt.

The liquidation of old debts in order to allow the agriculturists to start anew on a clean slate was partly secured in areas where Land Mortgage Banks had been established. But the number of such banks do not even now exceed 265, nearly 120 being situated in Madras. Under the Bengal Agricultural Debtors' Act of 1935, the Debt Conciliation Boards were empowered to declare a debtor insolvent when his debt was so high that it could not be repaid even in 20 annual instalments.

Reserve
Bank's
Report.

The result of debt legislation was a marked restriction of credit and, in the absence of the development of alternative sources of supply of credit, the agriculturist was in great difficulties, especially in periods of financial strain. The logical need of a comprehensive approach to the problem was emphasised in the Statutory Report of the Reserve Bank of India in the following terms: "These [legislative enactments]

¹ Anjaria and Nanavati, *Indian Rural Problem* (1945), Chap. XII, p. 215.

are definitely emergency measures to be justified only by the occurrence of unusual circumstances. Their effect in frightening away credit can not be minimised. . . . Where, however, there is chronic indebtedness and debts accumulate because the cultivator's income is not sufficient to leave him a reasonable margin of profit, the mere scaling down of debts can not provide a permanent cure. . . . Such chronic indebtedness requires a comprehensive policy aimed at improving the whole life and economic status of the agriculturist." In the absence of a bold and constructive policy of agricultural regeneration, the negative character of recent debt legislation did greater harm than good to the agriculturists themselves.

Mention may also be made of the novel attempt made by the state of Bhavanagar to check usury and eradicate the evil of unproductive debt. The Durbar initiated a comprehensive scheme of redemption of agricultural debts in 1932. The entire debt of the ryots, totalling Rs. 86,38,874, was compromised for Rs. 20,50,473. The Durbar paid off the creditors in the first instance, and later realised the amount from the ryots, in instalments collected along with the land revenue dues. It should be noted, however, that the commendable experiment of the Durbar, relating as it did to a small area and comparatively small amount, was of limited application to the rest of India. Moreover, along with such a bold step for liquidating past indebtedness, simultaneous arrangements should be made for the supply of adequate credit for productive purposes, though, of course, under requisite control.

Bhavanagar experiment.

If rural indebtedness is to be checked in an effective manner, it is essential that comprehensive measures of a radical character should be taken up without delay, in order to reconstruct the whole economic edifice responsible for the present situation. The real remedy can only come from an augmentation of the income of the agriculturist. Agriculture by itself is not sufficiently remunerative. The first thing that is necessary is that agricultural operations will have to be substantially improved so as to yield larger returns. Secondly, occupations subsidiary to agriculture will have to be introduced, such as dairy-farming, kitchen-gardening, bee-keeping, and cottage industries of various kinds.

The real remedy.



Wartime
situation.

Recent
legislation.

The war-time inflation of farm prices obviated the necessity of any further modification or reorientation in the rural debt policy of the Government. This recovery of agrarian prices is still being maintained. The result has been practically a diminution of debt-legislation output during the forties. An important legislative measure of recent years is the Bombay Moneylenders' Act of 1946 which fixes the maximum rate of interest on secured and unsecured loans at 6 and 9 per cent. respectively. Another important piece of legislation is the Bombay Agricultural Debtors' Relief Act of 1947 which repeals the earlier Act of 1939, and aims at scaling down the debt, *pro rata* to the paying capacity of the debtor through the court of the civil judge.

CHAPTER XIX

THE POPULATION PROBLEM

THE relationship between the population of a country and its prosperity or poverty is one which it is often difficult to analyse. Attempts have been made by writers on Indian economic problems at different times to discover whether India should be regarded as over-populated or not. More recently, some economists have sought to find out the exact optimum for India, that is to say, the exact number of persons that will secure for the Indians the maximum average return from the available natural resources and productive organisation. Differences of opinion on a problem like this are natural, and in many cases these differences have appeared on account of the existence of various standpoints from which the problem can be studied.

Complexity of the problem.

It is not really easy to make a clear pronouncement on the problem of population in India. In course of the decade 1921-31, the population of India increased from 319 millions to 353 millions, the rate of increase being 10·6 per cent. in the whole period. It may seem from this figure that there is taking place an alarming increase in the population of the country. There are some, like Sir John Megaw, a former Public Health Commissioner with the Government of India, who assert that the pressure of population is one of the chief causes of the extreme poverty of the people, and who predict that this pressure, if allowed to grow unchecked, will in the near future produce great misery in the country. On the other hand, there are others who direct attention to the rich natural resources of India, and conclude that our country ought to be able to maintain even larger numbers.

Increase of population and poverty.

A study of the Indian population problem can be complete only when full account has been taken of the birth-rate, the death-rate, the rate of migration, and the rate of increase of wealth. The Census Report of 1921 pointed out some peculiar features of the Indian social system leading to important effects



Factors
affecting
growth of
popula-
tion.

on the growth of population. Among these, the practical universality of marriage and the importance attached to male issues may be mentioned as factors leading to a generally high birth-rate. On the other hand, poverty, the insanitary conditions of living, the low standard of life, early marriage with its attendant evils of infantile and maternal mortality, all lead to an inordinately high death-rate. Emigration is an almost negligible factor, the total number of Indians abroad being much less than one-tenth of the net increase of population during 1921-31. The net increase of population is thus the resultant of a set of complex forces acting in diverse directions.

Writing about the increase in population in 1931, the Census Report observed: "This increase, however, is from most points of view a cause for alarm rather than satisfaction. This increase has shocked many. Is the rapidly increasing population a source of strength or weakness? Is it not straining our resources unduly? Does it not stand in the way of our progress? Such questions come before the minds of those who are worried by the increase of numbers."

The implication of this net increase of about 34 millions has been differently interpreted by writers with reputation as authorities on the subject. Mr. A. M. Carr-Saunders in his book, *World Population*, after considering the evidence of the vital statistics and of the density of population, concludes that "Indian statistics are compatible with, and may be said to suggest, pressure upon the means of subsistence". He even thinks that the position is not improving, and may be deteriorating. Mr. D. G. Karve, on the other hand, in his monograph on *Poverty and Population in India*, draws attention to "the falling rate of infant mortality, the comparatively stationary and slightly falling birth-rate, the definitely falling death-rate, and the slightly improving figure for expectation of life at birth" and infers that "these factors point towards an improving, at any rate towards a by no means worsening, population situation".

Is India
over-
popu-
lated?

To say, however, that the situation is not worsening is not to say that India is not over-populated.¹ The vital statistics of

¹ In an article contributed to the *Economic Problems of Modern India*, vol. i, Mr. P. M. Lad analyses the available statistics relating to the "population at the reproductive period," following Kuczynski's method,

India give all the indications of an excessive population in relation to the total amount of wealth produced. The very great pressure on land is the most unsatisfactory feature of the situation. Estimates have often been made by writers on the problems of Indian agriculture of the 'optimum holding' that an average agricultural family should have. These estimates vary from one to another, but, even if the most modest estimate of acres for a family of six be taken as the standard, it will be found that land in India has to maintain a much larger population than what it properly should. The very low percentage of people depending on trade and industry is another undesirable aspect of the question. When with all this one combines the fact that an appalling amount of poverty exists in the land, one naturally feels inclined to conclude that the population in India is more than what, according to the present-day standards, it ought to be. It has, however, to be remembered that the economic organisation at present prevailing in India pays little regard to the conservation and maximum utilisation of manpower, and it is probable that an improvement of the productive organisation will make it possible for the present population to produce a much larger amount of wealth than is produced now.

It is difficult, however, to suggest solutions to the problem of population in India. Mr. D. G. Karve thinks that the population-condition of our country is in the main only a symptom of social and cultural backwardness, and, according to him, the remedy lies in pushing forward a vigorous programme of social and intellectual reformation. It is, however, often forgotten that social reforms are likely to increase the effective rate of increase of population. Prevention of child-marriage, for example, will make it possible for most women to live up to the end of their reproductive age and will increase the rate of birth per marriage. A wider prevalence of widow-remarriage is also likely to produce a similar effect. It is necessary, therefore, to pay more attention to what Mr. Karve calls 'intellectual reformation'. The rate of birth can fall perceptibly only when the people have become educated enough to be fully alive to their

Solutions
to the
problem

and observes that "there is a *prima facie* proof for raising a strong presumption that it is low and indicative at the most of a normal stable growth."



own responsibilities. The birth-rate depends more upon the culture and the outlook of the people than upon age and duration of marriage. Carr-Saunders suggests that "family limitation is the only way of escape"; but this family limitation cannot be brought about unless the people have attained a sufficiently high level of education. In a country where the percentage of literacy is even now below 15, it is perhaps too much to expect that family limitation will play any considerable part in relieving the situation. ✕


An eminent thinker and writer, H. E. Sardar K. M. Panikkar, at present India's Ambassador to China, in the course of a thoughtful article on the subject of India's population observes as follows: "it is obvious that the unbalance in our population lies in its spatial distribution. While there are some areas in India, especially the deltaic regions and the Gangetic valley which are over-populated there are vast territories in Rajputana, in Central India and even in the Deccan where the density is meagre. Though our food production is now substantially below our requirements, it is well-known that many million acres of land await to be reclaimed in India. Also food experts are dinning into our ears the undoubted fact that our agriculture remains in many ways primitive and the yield per acre is the smallest in the world. Clearly what we require is a population policy which will take into consideration the problems of spatial adjustment and a long-period programme in respect of food production which will bring the abandoned lands under the plough, and also by improved methods change the quality of land and make it yield more." ✕

Mr. Panikkar observes further: "The population policy in India will have to be formulated in terms of our industrial and agricultural programmes with a view both to create a balance and to relieve the strain in areas which are undoubtedly over-populated. The basic problems which we shall have to consider in laying down our policy may briefly be touched upon here. In the first place, we have to relate our population to regional resources to enquire and discover the causes for the immobility of our agricultural classes, the social bonds that tie them to particular areas and the factors which may be brought into play to encourage movement among them. Secondly, we

Panikkar's
views.

Spatial
distribution
desirable.



have to study the problem in relation to the pressure on land, the food habits and other factors which tend to make our food-population relationship a rigid one. A third aspect of the problem which has also to be studied carefully is the relationship of climatic factors to human energy. It is well-known that the moist monsoon belt has the largest density of population accounting for very nearly a fourth of the human race. It is equally a well-known fact that the population of the monsoon belt is physically the most enervated, comparatively less capable of energy and more subject to diseases. Climatology is an essential branch of the science of population." These suggestions are worthy of consideration. 

According to Sir M. Visvesvaraya, the veteran engineer and industrialist, "by removing unfavourable conditions with steadfast perseverance in a settled national policy, by the introduction of science, modern machinery and up-to-date business methods, the production of the country from agriculture and manufactures could be doubled within the next ten and trebled in fifteen years."¹

Visvesvaraya's view.

The same view has been advocated by Arnold Lupton who says that "this great country and this great people with its enormous well-ordered population sufficient for all work it has to do, could, if wisely guided, support double its present number in health, plenty and pleasure."²

Lupton's opinion.

It is possible to approach the problem from a rational standpoint. The problem of population, as has already been emphasised, is of efficient production and equitable distribution. An increase of productive efficiency and wealth will solve the problem more readily than even intellectual and social reformation. Improvements of agriculture, development of subsidiary industries, and other similar steps will relieve the pressure on the land. Industries, both cottage and large-scale, trade, commerce, banking, transport, insurance, and shipping ought to be developed so that they may absorb the surplus numbers released from agricultural and allied occupations. Educational and social reforms, together with a thorough reorganisation of the productive structure, will certainly be

¹ Visvesvaraya, *Reconstructing India*, p. 10.

² A. Lupton, *Happy India*.



successful in bringing into being a better state of affairs.¹ Wise statesmanship can convert India's vast population from a source of weakness to a source of strength.

¹ As Mr. Lad observes, "the time spent in lamenting the inordinate increase in the population of the poor would be far better spent in arranging effective measures for the removal of their destitution."—*Economic Problems of Modern India*, vol. i.

CHAPTER XX

INDUSTRIAL LABOUR

ONE of the most important problems of the present-day industrial system is that of the relations between the employers and the labourers. Though the percentage of the total population of India engaged in factory labour is quite small, the problems of labour here are as important as in any other country. Public opinion in recent years has been insistent upon better conditions of employment for labourers, and the labourers themselves are becoming conscious of their own needs.

Before taking up the more important issues arising in this connection, it is necessary to point out some characteristic features of the labour supply in India. A complaint is often heard about the scarcity of labour supply in factory areas. The complaint appears to be almost a paradox, for India has a large population, and the number of persons who are either unemployed or under-employed is enormous. The reasons for the apparent paradox of scarcity of labour in a country like India is to be found in the peculiarities of the social system and also of the temperament of the people.

Peculiarities of labour-supply.

First, the labour supply of India comes generally from certain limited areas. The region comprising Bihar, Chota Nagpur, eastern districts of the Central Provinces, some of the northern parts of Madras, and a few of the districts of the United Provinces constitutes the largest and the most important source of labour-supply in India. In Bengal, local labour for the mills has always been scarce, and in the Assam tea gardens the almost entire labour supply comes even today from Bihar and the United Provinces. Secondly, the permanent labour-population is as yet very small. Labourers are generally casual migrants from villages, coming to the factories on account of economic pressure, or for earning some cash and returning to their villages as soon as it is possible for them to do so. The families of the labourers are often left behind in the old homes

and, consequently, the factory-labourers are not able to sever their ties with the villages. The result is that the factories have to maintain a large number of labourers on the muster-roll, and they have to deal always with new and inefficient hands. The problem of recruitment of labour thus remains almost a perennial one.

Inefficiency of Indian labourers.

Much has been said by writers on Indian economic problems about the inefficiency of Indian industrial labour, and attempts have often been made to calculate mathematically the amount of inefficiency by comparing the average Indian labourer with the average English labourer. One can easily see the theoretical and practical limitations of such calculations. It has also to be recognised that, if the Indian labourer is inefficient, the fault is not entirely his. He has to work in many cases under inefficient leadership and with out-of-date instruments and appliances. The enervating, and in some parts unhealthy, climate and the weak physique of the labourer also are contributory factors. Wages are often inadequate, and the standard of living is extremely low. The hours of work were very long in the past, but recently, they have been shortened. The dwelling-houses of labourers are exceedingly congested and insanitary. If, further, we take into consideration the lack of education and technical training, the lack of discipline and organisation, the habits of loitering and procrastination, and the extent of indebtedness, we get some idea of the causes of inefficiency of the labourers of India.

Housing.

It will be admitted even by a pessimist that most of the above causes can be eradicated. Better housing for labourers has already been attempted in many factories. The municipal housing scheme launched by the Bombay Development Directors has failed on account of inefficient handling; but there is no reason why a comprehensive scheme of better housing should not be possible. It has sometimes been contended that higher wages given to Indian labourers would not raise their standard of living. Apart from the theoretical invalidity of such an argument, it can be pointed out that, during the last two decades, there has actually taken place a marked improvement in the standard of living of the labourers.



1. LABOUR LEGISLATION BEFORE WORLD WAR II.

Labour welfare schemes¹ play a very important part in every country in which attempts are made to reconcile the conflicting interests of the labourers and the employers. These schemes are beneficial in two ways. They keep the labourers satisfied and well-disposed towards the employers and thus help to obviate strikes. They also help to raise the standard of living of the workers, thus increasing their efficiency. But the labour welfare movement has not yet gone far enough. No all-India welfare scheme has been launched by the Government. But in many cases factory owners have inaugurated their own welfare arrangements, with appreciably beneficial results. Besides, some outside social service institutions, like the Y.M.C.A. or the Social Service League, have done much to bring education and medical aid to the working people. Co-operative credit societies and co-operative stores are also of some help to the industrial workers. In some provinces Maternity Benefit Acts have been passed providing for monetary help and leave before and after child-birth.²

Labour welfare schemes.

One of the most important problems of employment of labour is that of hours of work. In India the movement for restriction of hours began early, and of late it has been encouraged by the gradually increasing strength of trade unions and by the conventions adopted annually by the International Labour Conference. The first Factory Act was passed in India mainly on the insistence of Lancashire textile interests, who claimed that the Indian mills had been getting an unfair advantage over them by employing children and women without any restriction. In those days the interests of British trade and industry often dictated the policy to be adopted in India, and the Government of India hastened to pass the Factory Act of 1881, prohibiting the employment of children below 7 in any factory. This Act also laid down that young persons between the ages of 7 and 12 must not be made to work in any factory for more than 9 hours a day and that they must be given 1 hour's

Hours of work.

¹ Vide *Industrial Labour in India* (International Labour Office, Geneva, 1938).

² An attempt to get a Maternity Bill for the whole country passed by the Legislative Assembly failed in 1924.

1881



daily rest and 4 holidays every month. In 1891, the minimum age for employment of children was raised to 9 years and the maximum daily hours of work were fixed at 7 for children between 9 and 12 and at 11 for women. Some restrictions were imposed upon the employment of women and children at night. The next amendment of the Factory Act came in 1911, after a Commission had reported on the subject in 1908. This amendment lowered the hours of work for children above 9 and below 14 to 6 hours a day and it set a 12-hour limit upon the daily hours of work for men labourers in textile factories. The employment of women at night was prohibited.

Factories
Act of
1922.

Factory legislation in India took another turn in the years following World War I, mainly on account of the growing strength of labour organisations and of the influence of the conventions of the International Labour Conference.¹ An important amendment to the Factories Act came in 1922, when the law was extended to apply to power-using factories employing not less than 20 persons. The minimum age for employment of children was raised to 12 years and a 6-hour daily limit was set down for young persons above 12 and below 15. For adult labourers, a standard limit of 11 hours a day and 60 hours a week was prescribed, and provision was made for an interval of 1 hour after every 6 hours.

When this Act was brought into operation, the employers claimed that as a matter of fact the actual hours of work were less than the statutory standard, and even these were equivalent to a still smaller number of hours of effective labour on account of the habits of idleness and loitering. On the other side, the labourers continued their agitation for an 8-hour day, or at least for a 10-hour day. The Whitley Commission recommended a small reduction of the limits, and an amending and consolidating Act was passed in 1934.

Factories
Act of
1934.

The Factories Act of 1934 lowered the hours of work for children between 12 and 15 years of age to 5 per day. The hours of work for adults were retained at the same figures as under the Act of 1922 for seasonal factories (*e.g.*, sugar). In

¹ For a lucid presentation of post-war labour legislation, reference may be made to *Principles and Problems of Indian Labour Legislation* by Dr. R. K. Das (University of Calcutta, 1938).



the case of perennial factories the limits set down were 54 a week and 10 a day. Special provisions were made to regulate the total 'spread-over' of the working hours of the labourers in course of a particular day.

Legislative enactments and rules have been specially made for regulating the employment of labourers in mines. Under the Indian Mines (Amendment) Act, 1935, the maximum hours of work have been limited as follows: Above ground, 54 a week and 10 in any day; below ground, 9 hours a day. Children under 15 are excluded from employment. Rules are also in force for excluding women from underground work by a gradual process. It was expected that by the end of 1939 there would remain no woman worker employed underground. Mines Act.

Attempts were also made by the legislature to bring relief to the labourers in other ways. The Workmen's Compensation Act of 1923 introduced the principle of compensating the labourers in cases of death or disablement arising from any cause connected with their work. In 1933 the scales of compensation were revised.¹ Workmen's compensation.

In 1936, a Payment of Wages Act was passed to regulate the period of, and delays in, wage-payment, and also to control many of the illegal deductions that were often made by the employers from the wages of the labourer. The Act required payment of wages within 7 days of the conclusion of the wage-period. Payment of Wages Act, 1936.

Two other aspects of the labour problem in India remain to be considered. During the years immediately following the First World War, there ensued a series of strikes and other sorts of labour trouble. The main reason for this outbreak was to be found in the high prices which were not offset by rises in wage-rates. In a country where unionism had not even then grown to any considerable extent, it was natural that wages lagged behind prices, and consequently the labourers had to suffer from a great economic distress. Since then, strikes have become a constant feature of the industrial life of India. There has been a Labour disputes.

¹ According to these provisions, the adult labourers are to receive 42 months' wages in case of permanent disablement subject to a maximum of Rs. 5,000, and children a fixed amount of Rs. 1,200. In the case of the death of an adult labourer from occupational causes, the dependants are to receive 30 months' wages subject to a maximum of Rs. 4,000, and in the case of the death of a child, Rs. 200 only.



great variety of reasons that have led to strikes on different occasions. In most cases, strikes have occurred on account of labourers' grievances in respect of conditions of work, terms of employment, or wage-rates. But many strikes have taken place from other causes, e.g., protests against dismissals or political influences.

Settle-
ment of
labour
disputes.

There are three ways in which labour disputes can be settled. The mediation of some eminent outsiders is helpful when both the parties have an unreserved confidence in the mediator. In Ahmedabad, the mediation of Mahatma Gandhi has often been successful in avoiding or stopping labour troubles. The second method is that of voluntary conciliation. Both the employers and the employees may agree to submit their cases to an arbitration committee composed of representatives of both the sides. This method has occasionally been tried in India. In some countries a third method, which Pigou calls "the method of coercive intervention", has been tried with success. This method entails an official enquiry into the grievances of the workers and an official settlement that is binding on both the parties.

Trade
Disputes
Act of
1929.

In India, legislation for settling such labour strikes was introduced by the Trade Disputes Act of 1929. Under the provisions of the Act, the Government is empowered to appoint a *Court of Enquiry*, consisting of a chairman and other members, none belonging to any of the parties to the dispute, or a *Board of Conciliation*, consisting of a chairman and other members, who may be independent persons or representatives of the parties to the dispute. The Court or the Board tries to bring about a settlement, but the decision is not legally binding on the parties concerned. Strikes and lockouts in public utility services without proper notice have been made illegal. It has also been provided in the Act that strikes and lockouts declared for causes extraneous to the industry concerned or intended to cause "severe, general, and prolonged" hardship upon the people will also be regarded as illegal. In some provinces special officers have been appointed to deal with labour disputes.

A strike is a double-edged weapon. If properly handled, it can be of great use to labourers. But its potency for mischief is equally great. In cases where it is improperly used, it may do a great deal of harm to industry as well as to the labourers them-



selves. A strike should, therefore, be resorted to only when there is no other way of settling a dispute.

It has already been remarked that the trade union movement has grown to a considerable extent after the war of 1914-18. In 1937, there were in existence well-organised unions of labourers in many industries, particularly in railways, iron and steel factories, and engineering works. The progress of the movement, however, was handicapped by a number of adverse factors. The labourers were illiterate and poor; leaders were rare among them; a great variety of castes, sub-castes, languages, and customs prevent the growth of a sense of unity; and their migratory habits prevented them from acquiring any permanent affiliations with the industry in which they were employed. In spite of these difficulties, however, the trade union movement made a fair progress in India.

Trade
unions.

The Trade Unions Act of 1926 empowered the unions to get themselves registered. A registered trade union was to maintain its papers properly and have its accounts regularly audited; at least half of its officials must be labourers employed in the industry itself. In return for these obligations, a registered trade union and its members enjoyed immunity from criminal liability in all its legitimate activity, and immunity from civil liability in certain cases. If a fund was maintained by a registered union for political purposes, contributions to it were optional on the part of the members.

Trade
Unions
Act of
1926.

The trade union movement deserves every help and encouragement from the Government. But care should be taken to ensure that the movement is not utilised for purposes other than those which are legitimate and conducive to the true well-being of labour. Exploitation of labour should be guarded against. The constructive programme of trade unions should be regarded as the most important part of their functions. The development of trade unions on sound lines is an imperative necessity in a country where the working class is ignorant and its moral and material condition is far from satisfactory.

2. POST-WAR LABOUR LEGISLATION

A comprehensive Act amending and consolidating the law regulating to labour in Indian Factories was passed by the Indian

The
Factories
Act, 1948.



Legislature in 1948. This Act is the Factories Act, 1948 which extends to all the Provinces and the acceding States. It came into force in April, 1949. Its main provisions are: (1) No adult worker shall be allowed or required to work in a factory for more than 48 hours in any week and for more than nine hours in any day. (2) In every factory wherein 500 or more workers are ordinarily engaged, the occupier shall employ in the factory such number of welfare officers as may be prescribed. (3) The Provincial Government has been authorised to employ Inspectors who will have the power to enter any factory and make examination of the premises, plant and machinery and to engage testifying surgeons who shall carry out the examination and testification of young persons under the Act and of persons engaged in dangerous occupations or professions. (4) No woman shall be employed in any factory except between 6 P.M. and 7 A.M. (5) No child who has not completed his fourteenth year shall be required or allowed to work in any factory. (6) A non-adult worker, i.e., a child who has completed his fourteenth year or an adolescent shall not be required or allowed to work in a factory unless a certificate of fitness granted to him by the testifying surgeon is in the custody of the Manager of the factory. (7) No child shall be employed or permitted to work in any factory for more than four and a half hours any day and between the hours of 7 P.M. and 6 A.M. Besides the above features there have been included elaborate provisions relating to health, welfare and safety measures.

*Settlement
of
Industrial
Disputes.*

The methods by which industrial peace is sought to be promoted are (1) Enquiry, (2) Conciliation and (3) Arbitration. The Committee of Enquiry is concerned with an investigation into the causes of the labour dispute and involves a vast degree of intervention by the state. Conciliation involves a greater degree of intervention and the principal function of the Board of Conciliation is to bring together the two parties to the dispute and try to reach a settlement. Arbitration may be either voluntary or compulsory. In the ordinary course it leads to a final settlement of the dispute. The award of the arbitrator is binding on both the parties. Its contribution to the solution of industrial disputes was however negligible and between 1929 and 1936 it was resorted to only on five occasions. At first a



temporary measure intended to be in force for 5 years, it was made permanent in 1934. But to all intents and purposes it remained a dead letter.

The Royal Commission on Labour had pointedly drawn attention to the neglect of conciliation in India and the defect was sought to be removed by a provincial government—that of Bombay—by passing successively two laws, the Bombay Trade Disputes Conciliation Act of 1934 and the Bombay Industrial Disputes Act of 1938. The latter was the more ambitious piece of legislation. Its main features were: (1) Compulsory conciliation, (2) Declaration of strikes and lockouts, before completion of conciliation proceedings as illegal (3) Boards of conciliation, the publication of whose reports was to be compulsory, (4) Voluntary arbitration and (5) Courts of Industrial Arbitration. These two Bombay Acts, as Mr. Gadgil¹ observed, constituted the sole experiments in the sphere of machinery for the settlement of industrial disputes in India. The Bombay Industrial Disputes Act was amended in 1941. The amendment empowered the Government to refer any industrial dispute to the arbitration of the Industrial Court where (1) a serious outbreak of a disaster or a dislocation of the peace was likely to occur, (2) a serious or prolonged hardship to a large section of the community was likely to be caused by reason of the continuance of the industrial dispute, or (3) the industry concerned was likely to be seriously affected and the prospects for employment curtailed as a result of the continuance of the dispute.

Similar powers were obtained by the Government of India and also delegated to Provincial Governments in January 1942 under Rule 81A of the Defence of India Act.

Defence of
India Act,
Rule 81A.

The Bombay Industrial Disputes Act of 1938 was repealed by a new law, the Bombay Industrial Relations Act, 1946. Compulsory arbitration in the case of certain industrial disputes was an important feature of this Act. The Government was empowered to refer to the arbitration of the Labour or Industrial Court industrial disputes not only under the same circumstances as were envisaged under the amendment of 1941 but

¹ D. R. Gadgil—*Regulation of Wages and other problems of Industrial Labour*.



also where it was necessary to do so in the public interest. Thus sweeping powers were obtained by the Provincial Government and the right to strike or declare a lockout was henceforth to be exercised on the sufferance of the Government. Strikes and lockouts before the commencement of conciliation or during the pendency of arbitration or conciliation proceedings were declared illegal. A distinction was made in favour of registered and approved unions whose officers were given special rights. This section of the Act came to be bitterly criticised in that it was considered to be an attempt to foster the growth of a peculiar type of unions which were prepared to submit to different forms of Government control and which favoured peaceful methods in exchange for certain privileges. The Act also provided for joint committees to be composed of representatives of employers and employees in equal numbers. Such committees would bring the employers and employees together and exercise an educative influence on both.)

Bombay
Industrial
Relations
Act.

The Bombay Industrial Relations Act supplied the basis for an all-India legislative measure, the Industrial Disputes Act, which was passed by the Central Legislature in 1947. It provided for the constitution of Works Committees in the case of any industrial establishment employing one hundred or more workers on lines similar to those in the Bombay Act. The duty of the Works Committee would be to promote measures for securing and preserving amity and good relations between the employer and workmen. It also provided for the establishment of Boards of Conciliation, Courts of Enquiry and Industrial Tribunals. The Government, Provincial or Central, as the case may be, may refer any industrial dispute to a Board for promoting a settlement thereof, to a court for enquiry and to a tribunal for adjudication.

If a dispute relates to a public utility service and the required notice has been given or when the parties have applied either jointly or separately for a reference of the dispute, the Government must make the reference. No employee of a public utility service shall go on strike without giving to the employer notice of strike within six weeks before striking or within 14 days before such notice or during the pendency of conciliation proceedings. Corresponding obligations have been placed upon

employers in the matter of declaring lockouts. There is also general prohibition of strikes and lockouts during the pendency of proceedings before a Board of Conciliation or before a Tribunal.

A public utility service under the Act refers to any railway service, any postal and telegraph or telephone service, any industry which supplies power, light or water to the public, any system of public conservancy, any section of an industrial establishment on the working of which the safety of the establishment or the workmen employed therein depends and finally any industry specified in a schedule to the Act. The schedule specifies transport (other than railways), coal, cotton textile, foodstuffs and iron and steel. The Government may declare any of these industries to be a public utility service.

The Act during its course through the legislature encountered stiff opposition from representatives of labour. They contended that the Bill was designed to deprive labour of the right to strike and it would promote neither the growth of the Trade Union movement nor the much desired industrial peace. But the Labour Member observed that the labour leaders who were opposing the Bill were basing their opposition on the narrow point of view of factory-labour in certain big cities, ignoring altogether the vast numbers of workers of other categories. He maintained that the Bill would benefit the workers; and the works committees would tend to unite and organise the workers and would be an important contribution to the development of the trade union movement. Such a machinery for the settlement of industrial disputes was urgently called for so that production might not be interrupted in the prevailing inflationary conditions.

The latest legislative proposal is the Labour Relations Bill, 1950. It breaks new ground and is the first attempt at providing the country with a comprehensive law on the subject superseding the Industrial Disputes Act, 1947 and other similar pieces of legislation.

Three new authorities are envisaged under the Bill. They are Standing Conciliation Boards, Labour Courts and the Appellate Tribunal. The last is a new authority of considerable importance. Lack of uniformity in the awards given by the

Labour
opposition.

The
Labour
Relations
Bill, 1950.



The Minimum Wages Act of 1948 occupies an important place among the labour measures passed by the Indian Parliament in 1948. The question of fixing statutory minimum wages had engaged the attention of the Royal Commission on Labour but the first bill on the subject was published in 1943. A second bill having a more restricted scope was introduced in the Central Legislature in 1946. This Bill was passed into law in February, 1948. Its object is to fix minimum wages payable to workmen in a number of employments listed in a schedule of 2 Parts, particularly those occupations where opportunities for exploitation were the greatest. Schedule Part I includes employments in shawl weaving or carpeting establishments; rice mill, flour mill or dal mill, tobacco (including *bidi* making) manufacturing; plantations (cinchona, rubber, tea and coffee), oil mills; under any local authority; road construction and building operations; stone breaking and stone crushing; lac manufactory; mica works; public motor transport; tanneries and leather manufactories. Schedule Part II includes employment in agriculture. The wage fixing will be done in the former before two years and in the latter before three years. In fixing and revising minimum rates of wages, different minima may be fixed for different scheduled employments, for different classes of work in the same employment, for adults, adolescents, children and for different localities. There are provisions for the appointment of advisory committees to hold enquiries and advise the government, but such appointment is optional, not obligatory. This is in sharp contrast to the practice in other countries which have adopted the policy of wage fixing by the State. The task there has been entrusted either to a wage board specially constituted for the purpose or to a court of arbitration. In India the government may straightaway publish its proposals in the official gazette and after considering the opinions of the interested parties may declare them binding. But government officials do not possess the technical knowledge and the practical experience that will be required for fixing not only the minimum wage rates but the differential rates for the skilled occupations. Even where wage boards, or advisory committees as they are called in that Act, are appointed, the representatives of the workers are likely to be illiterate and ignorant which will make their

The
Minimum
Wages Act,
1948. ✓

participation in the committees almost ineffective. One solution of this difficulty may be the appointment of the so-called outsiders, *i.e.*, men who have organised trade unions in their industries. It is also difficult to understand why the scope of the Act has been made so narrow. There are many big organised industries which are paying very low wages to certain categories of workers. These groups require as much legislative protection as the workers in the Scheduled industries. The operation of the Act has been postponed for two years for the present.

Social
Insurance
Legislation.

✓ Social Insurance is that form of insurance which guarantees an individual against exigencies which reduce his earning capacity or increase his expenditure beyond the normal. Such contingencies arise out of unemployment, sickness and accidental disablement and old age ; and finally widowhood or orphanhood.

Mr. Adarkar was appointed by the Government of India to formulate a definite scheme of sickness insurance in 1943. His scheme covered only the three major groups of industries, (1) Textile, (2) Engineering and (3) Mineral and Metal. Seasonal factories were excluded. There were also some scheduled exceptions, such as employment in the naval, military and air services of the Government. Under the scheme the cost was distributed among the three parties, the state, the employer and the employee. Both cash and medical benefits were provided for. But the scope of the plan was very much restricted. It did not cover cases of prolonged illness resulting from leprosy or tuberculosis even though large numbers of our workers are known to be victims of such diseases.

Messrs. Stack and Rao of the I.L.O., who were invited by the Government of India, suggested several modifications in the scheme of Mr. Adarkar. The scheme they proposed covered all perennial factories and included provisions for covering both maternity benefit and workmen's compensation.

Ultimately the Government of India introduced a bill "to provide for certain benefits to employees in case of sickness, maternity and employment injury", which became law on the 19th April, 1948. It is known as the Employees' State Insurance Act, 1948.

It applies in the first instance to all factories other than seasonal factories. It covers all persons employed for wages

in a factory which in the aggregate does not exceed rupees four hundred. Members of naval, military and air forces have been excluded. An Employees' State Insurance Corporation has been established for the administration of the scheme, with the Minister of Labour, Government of India, as ex-officio Chairman. All contributions paid under the Act are to be paid into a Fund called the Employees' State Insurance Fund which shall be held and administered by the Corporation for purposes of the Act. The Central Government shall, every year during the first five years, make a grant to the Corporation of a sum equal to two-thirds of its administrative expenses not including of course the cost of benefits paid under the Act. The scheme is a compulsory one and the benefits are of the following categories—(1) sickness benefit, (2) maternity benefit, (3) disablement benefit, (4) dependents' benefit and (5) medical benefit. Contributions have to be made both by the employers and employees. For determining the weekly contributions payable in respect of an employee by the two parties, employees have been classified into eight groups with reference to their average daily wages. For calculating the benefits there is a schedule of assumed average daily wages in respect of the eight categories of workers mentioned above. The daily rate of sickness benefit, for instance, during any benefit period will be an amount equivalent to one-half of the sum of the assumed average daily wages for each of the weeks for which contributions were paid in respect of the person during the corresponding contribution period, divided by the number of weeks in that contribution period in which he was deemed to have been available for employment. ✓

At the Industries Conference convened by the Government of India in December, 1947 it was frankly recognised that improvement in employer-labour situation was the most important pre-requisite to increased production. The Conference arrived at a general agreement which has been embodied in what has come to be known as the Industrial Truce Resolution. Among other things the Resolution recommended a readjustment of remuneration to capital and labour. Both capital and labour were to share the product of their common effort after making provision for payment of fair wages to labour, a fair

✓ Profit-Sharing.



return on capital employed in the industry and reasonable reserves for the maintenance and expansion of the undertaking. This readjustment was sought not as an end in itself but as a means to the establishment of industrial peace and the increase of production. The Government of India, while accepting this Resolution as part of their industrial policy, laid particular stress on this object by stating that labour's share of the profits of industry should be on a sliding scale normally varying with production. A Committee on Profit-sharing was appointed by the Government of India to implement their policy.

Profit-sharing may be defined as an agreement freely entered into by which the employees receive a share fixed in advance of the profits. In the typical profit-sharing scheme no attempt is made to modify interest or ordinary wages.

Committee's
opinion.

★ The Committee on Profit-sharing are of the opinion that profit-sharing on a sliding scale varying with production is not practicable. Although profit-sharing by statute has been introduced in Venezuela, Mexico, Palestine and New Zealand, the Committee believe that it is too early to benefit by their experience. Schemes of profit-sharing on a voluntary basis are common and must be distinguished from any compulsory scheme sought to be applied over a whole industry or a region. The Committee therefore considered that it would be advisable to propose a scheme which would be applicable to six well-established industries, such as (1) Cotton textiles, (2) Jute, (3) Steel, (4) Cement, (5) Manufacture of tyres and (6) Manufacture of cigarettes, and which will be tried out in the first instance for a period of five years. It has been emphasised that the main reason for recommending this experiment in profit-sharing is the promotion of industrial peace and its benefits in any year will be withheld wholly or partly from workers who in that year participate in a strike declared illegal by a competent authority.¹

Calculation
of labour's
share.

For determining labour's share in the profits which result from the joint effort of employer and employee, the concept of "surplus profits" has been introduced by the Committee. Labour's share should be 50 per cent. of the surplus profits of

¹ Report p. 7.



the undertakings. "Surplus profits" has been defined as net profits minus 10 per cent. of net profits for reserves minus 6 per cent. on capital employed. Net profits has been defined as gross profits, *minus* depreciations, *minus* managing agency commission, *minus* taxation, while capital employed means capital *plus* reserves.

The individual worker's share of profit should be in proportion to his total earnings during the preceding twelve months minus dearness allowance and any other bonuses received by him. If an individual worker's share exceeds 25 per cent. of his basic wage, cash payment should be limited to 25 per cent. of his basic wage and the excess held on his account either in his provident fund or otherwise.

The Report deals at length with the question whether labour's share should be distributed by each undertaking or by each industry or industries as a whole in each region or for all industrial undertakings in the country. Unit-wise profit-sharing is finally recommended as the worker should have a direct interest in the fortunes of the concern in which he works. The scheme recommended is one where profit-sharing should normally be unit-wise but in certain selected cases would be on an industry-cum-locality basis. To begin with, profit-sharing on an industry-cum-locality basis should, according to the Committee, be tried out in the cotton textile industry in Bombay, Ahmedabad and Sholapur.

The proposal recommended, however, does not mean only share of profits, but payment even when there are no profits. Under the scheme which has been suggested for experiment, the workers of units which do not make any profits will also get a share. Thus it involves payment of minimum bonus by units which have either incurred a loss or made a profit less than the average profit of the industry. A further inequity under the arrangement is that in units where the profit amount due to labour exceeds the sum required to pay the minimum bonus, such excess will also have to be paid to the workers of that unit. This will naturally result in workers in the same industry and same region getting different amounts. This carries the germs of discontent.



Notes of
Dissent.

Prof. Radhakamal Mukherjee has dissented from the Committee's plan of profit-sharing which is delinked from output. In the present grave crisis in the country arising out of the reduction in industrial production, he thinks it is desirable to link it with output.

The working of profit-sharing schemes in foreign countries has revealed several limitations. Profits are influenced by a large variety of factors outside the orbit of individual establishment and worker's efforts have very often little bearing on the fortunes of individual ventures. Profits may very frequently be depleted as a result of managerial inefficiency. A situation may develop when mutual accusations may result in increasing bitterness and antagonism between the workers and employers. The method of accounting followed by the employers is often questioned by the workers. Thus, instead of harmonising their interest and promoting mutual co-operation and good-will, profit-sharing has proved to be a source of industrial dispute. The experience of other countries working profit-sharing schemes does not warrant the belief that it is likely to be successful in India.¹

Merits and
defects.

Profit-sharing is a good ideal, but to what extent it is practicable can be ascertained only as the result of experiment. In the industrially advanced countries like the United States and Britain, where it is optional, it has not made much headway. It has been made compulsory recently in a few less advanced countries. The merits of the system may be summarised thus: (1) It acts as an incentive to production either directly or indirectly; (2) it creates an identity of interests between capital and labour; (3) it fosters a spirit of co-operation and harmony; and (4) it encourages thrift. The demerits are: (1) It involves time and trouble in its working; (2) the method of accounting by which profit is calculated is an intricate one, and labour may not always regard it as satisfactory; (3) it is a one-sided arrangement in that labour participates only in profits, but not in losses; (4) when profits do not occur, labour becomes resentful, and its goodwill is replaced by discord which prejudicially affects industry, and (5) The understanding of the system requires

¹ *Minute of dissent to the Report of the Committee on Profit-sharing.*

intelligence which, in the present undeveloped condition of labour in the less advanced countries, is not found in abundance. Experiments, however, are worth making in selected industries on a voluntary basis. If the results of these experiments are favourable, the system may be extended to other industries.

The Fair Wages Bill has recently been introduced by the Labour Minister, Mr. Jagjivan Ram, in the Indian Parliament. The Committee on Fair Wages had defined fair wages as "something more than the minimum but less than a living wage". A fair wage will ensure to the workers not only the necessities like food, housing and education but also a reasonable amount of comfort. According to the Committee, the lower limit of a fair wage would obviously be the minimum but the upper limit would clearly be the capacity of the industry to pay. The fixation of the fair wage depends upon (1) the productivity of labour, (2) the prevailing rates of wages, (3) the level of national income and (4) the plan of the industry in the economy of the country.¹ The Bill will create a Board as the determining authority consisting of representatives of the government, employers and employees. In fixing fair wages the Board may take the following factors into consideration: (1) the degree of skill required for doing work, (2) the strain and fatigue involved, (3) the training and experience required for doing the work, (4) the responsibility to be undertaken, (5) the disagreeableness and otherwise of the work, (6) the hazard attendant on the work. Different rates may be fixed for piece work, time work, over-time work and for different classes of establishments for different classes of employees within the same establishment, for different areas etc.

The Fair
Wages Bill.

The principle of a fair wage or, for the matter of that, a national minimum wage is laudable no doubt but the question is whether the present is an opportune moment for the introduction of such measures. In the face of the wide-spread retrenchment both by private employers and government, the pressing necessity of the moment is the provision of security of employment to those already in employment. The point worth considering is whether at the present moment priority should be given to the measure and whether it will yield the

¹ Report of the Committee on Fair Wages.



desired result. The government should not rush into policies involving such highly controversial and yet-to-be tried high-sounding ideals and should instead try to consolidate the position already covered in the field of labour legislation.¹

The Industrial Disputes (Appellate) Tribunal Bill.

The purpose of the Industrial Disputes (Appellate) Tribunal Bill 1949 is to establish an Appellate Tribunal in relation to industrial disputes. The Tribunal has been empowered to hear appeals from any award or decision of an industrial tribunal, if the appeals involve any substantial question of law or if the award is in respect of wages, bonus, travelling allowance, retrenchment of workmen, classification by grades etc. No appeal shall lie to the Appellate Tribunal from any award made by the Industrial Tribunal set up under the Industrial Disputes Act, 1947.

The Appellate Tribunal is to consist of persons who have been judges of the High Court or qualified for appointment as High Court judges or have been members of an Industrial Tribunal for not less than two years. The members should be appointed in consultation with the Supreme Court. They should normally hold office for a period of three years. An appeal under this Act may be presented by any party which is aggrieved by the award or decision of an industrial tribunal, or the appropriate Government, whether or not it is a party to the dispute.

During the period of time allowed for the filing of an appeal during the pendency of any appeal under this Act, no employer shall alter, to the prejudice of the workmen concerned in such appeal, the conditions of service applicable to them, immediately before the filing of such appeal, or discharge or punish, whether by dismissal or otherwise, any workman concerned in such appeal; except with the express written permission of the Appellate Tribunal. No workman shall go on strike and no employer shall declare a lock-out during the period of time allowed for the filing of an appeal to the Appellate Tribunal or during the pendency of an appeal before it. Penalty has been provided for illegal strikes and lock-outs and for instigation.

¹ *Commerce*, June 24, 1950, p. 1104.



The Act also provides for certain amendments to the Industrial Disputes Act of 1947.

The Mines Bill was passed in 1950, the object being to amend and consolidate the law relating to the regulation of labour and safety in mines.

The chief inspectors and other inspectors appointed by the Central Government under the Act have been empowered to examine into and make enquiry respecting the conditions of any mine and all matter relating to the safety and welfare of persons employed in the mines. Certifying surgeons may also be appointed by the Central Government for the examination of adolescents and of persons engaged in dangerous occupations in mines and for the exercise of medical supervision. A mining Board may also be appointed. The owners and managers of mines will have to make effective arrangements for the provision of drinking water, conservancy and medical appliances. When an accident has occurred or there has been an outbreak of disease connected with mining operations, a notice has to be sent to the Government who may direct investigation.

The Mines
Bill, 1950

It has been provided that there shall be a weekly day of rest and that the period of work of adult miners above ground should not be more than 48 hours in any week or for more than nine hours in any day. No adult employed below ground in a mine should be allowed to work more than 48 hours in any week or ~~for~~ more than 8 hours in any day. No adolescent shall be allowed to work in any part of a mine which is below ground except on the strength of medical certificate of fitness granted by the certifying surgeon. No woman, again, shall be employed at any time of the day or night in any part of the mine which is below the adjacent ground level; and no woman shall be employed above ground except between the hours of 6 A.M. and 7 P.M. Provisions have also been laid down for grant of leave with wages.

CHAPTER XXI

TRANSPORT

1. RAILWAYS

UNTIL the time of Lord Dalhousie, the construction of railways in India was neglected. The first railway line in India was opened by the G. I. P. Railway Company in 1853, connecting Bombay and Thana. In the following year, the East Indian Railway Company opened a line between Howrah and Hooghli. After the Sepoy Mutiny, the strategic importance of railways was fully realised, and railway construction proceeded at a very rapid pace. The total route mileage of all Indian railways on the 31st March, 1936, was 43,118, of which 74 per cent. was owned by the Government of India.

Objects of
railways,
strategic
and adminis-
trative.

Economic
effects :
equalisa-
tion of
population,

equalisa-
tion of
prices,

mitigation
of the
horrors of
famine,

impetus to
activity,
economic

Though the primary objects of the construction of railways were strategic and administrative, their economic effect has been immense. Cheap, easy, and quick communication enables the surplus population of congested areas to move to the more thinly populated parts of the country where labour alone is needed to make the soil yield bountiful harvests. There the people can turn their labour to better account and command higher rates of remuneration. The railways have helped to equalise to a large extent prices in the different parts of the country. Under their influence, the whole of India is fast tending to become one market for the more important articles. The value of railways is most realised in periods of famine. Famines are rarely universal throughout India. Generally, they affect particular tracts, and it often happens that when one area is suffering, another has an abundant harvest. Now the railways have made it possible for the deficiency of the former to be made good out of the surplus of the latter. They thus greatly help in mitigating the sufferings of the starving population. Besides, the railways have given a great impetus to the economic and other activities of the people. The influence of railways on the moral and social life of the people has also been considerable. Their



political effect is seen in this that they have made possible an efficient system of centralised administration.

Social,
moral, and
political
effects.
Indirect
benefits.

The railways have also yielded substantial benefits in an indirect way. The purchase of rails and other railway materials in India has given a considerable stimulus to the Indian iron and steel industry. When locomotives are constructed in this country the steel industry will receive a further impetus. Indian timber is being profitably utilised to serve as sleepers and as material for building the passenger-coaches. Besides, in normal years the Indian Government expects to realise a considerable income from the railway surplus. During a fairly long period, the Government received annually, on an average, about 6 crores of rupees as contribution from the railways.

On the other hand, by promoting the importation of foreign goods they have hastened the decay of indigenous industries. Besides, the obstruction caused to natural drainage by high-level railroads and the formation of stagnant pools on both sides of the railway lines have most prejudicially affected the health of the people.

Disad-
vantages.

Indian railways show a remarkable diversity of conditions in respect of ownership and control. When the first proposals for the construction of railways were mooted it was agreed that railways should be constructed by companies incorporated in England for the purpose. But the early companies were hesitating, as they were under an apprehension that the poverty of the country would not make such a venture profitable. They therefore insisted on a guarantee by the East India Company of a specified return. Two contracts were made in 1849, but it was not until 1854 that the policy of entrusting generally the construction of railways to private companies was definitely adopted. The main reason for this policy was "that the conduct of commercial undertakings did not fall within the proper functions of any government, and least of all within the functions of the Government of India, since the dependence of the population on the Government was, in India, one of the greatest drawbacks to the advance of the country, and that the country would therefore benefit by the introduction of English energy and English capital for railway purposes, with the possibility

Owner-
ship and
control.



that such energy and capital would in due course be encouraged to assist in the development of India in other directions."¹

The Guar-
antee
System.

The system which was introduced for the purpose of railway construction in India is known as the Guarantee System. Under it, the East India Company agreed to provide land free, and guaranteed interest on the capital at the rate of five per cent. per annum. Half of any surplus profits earned was to be used towards repaying to the Government any sums by which it had been called upon to supplement the net earnings of any previous period in order to make good the guarantee of interest; and the remainder was to belong to the company. The companies in all respects, with the exception of choice of staff, were placed under the supervision and control of the Government. Further, at the expiration of the term of 99 years the land and works were to become the property of the Government, the rolling-stock and other movable property being paid for at the market value; and the Government had the option of purchasing the line after the first 25 years or after the first 50 years on paying off capital, at market value, by granting annuities for the remaining period of the lease.

The construction of railways under this system was by no means economical, as there was little incentive to economy. The relations between the Railway Companies and the Government could not be expected to be harmonious, and conflicts were bound to arise. The financial loss to the Government under this system was enormous. Attempts were made between 1862 and 1867 to encourage the construction of railways in India by unguaranteed companies with fixed subsidies, but the terms which were offered failed to attract capital. After 1869, the Government itself undertook the construction of railways, as it was realised that the credit of the Government would enable it to borrow the necessary capital on easier terms than a company. The famines which overtook the country in the seventies, and the havoc they caused, brought the question of railway construction to the forefront again. The Famine Commission of 1880 impressed upon the Government the necessity for accelerating the pace of railway construction as a protection

¹ *Vide Ainscough, General Review of the Conditions and Prospects of British Trade in India, 1919-21, p. 314.*

against the recurrence of famines. This led to the re-introduction of the Guarantee System with terms more favourable to the Government, and several lines were constructed under this system. In the case of some guaranteed lines the Government exercised the option of purchase, and in some cases the option was not exercised. The resulting consequence of this was that railways in India were managed under diverse conditions, and they might be classified into three broad classes:

- (1) State lines worked by the state.
- (2) State lines worked by a company.
- (3) Company lines worked by a company.

Having thus briefly traced the history of railway construction, let us examine the relations which subsisted between the Government and companies in the past. These relations might be stated as follows:

Relations
with the
Govern-
ment.

- (a) The lines that they worked were the property of the state.
- (b) The greater part of the capital was the property of the Government, either through originally having supplied it or through subsequent acquisition.
- (c) When the funds were required for further capital expenditure, the Government had the option of either providing them or of calling on the company to provide them.
- (d) The contracts were usually terminable at the option of the Secretary of State.

The Government also possessed a considerable power of administrative control which was exercised through the Railway Board. In the first place, the company was bound to keep the line in good working order and fully supplied with rolling-stock, plant and machinery. Secondly, the Secretary of State might require the company to carry out any alteration or improvement in the line for the safety of the public. Thirdly, he might require a company to enter into agreement with other companies for the interchange of traffic. Fourthly, he had a general control over rates, and could fix the maximum and minimum rates. Lastly, companies were bound to keep their accounts in proper form and submit them to the Government.

A few words may be said here about the advantages and disadvantages of the state ownership of railways. The points in favour of such ownership are:

State vs.
private
ownership
of railways.



(i) Profits accruing from railways help to swell the state income ;

(ii) On state-owned railways the convenience and the safety of passengers are first considerations ; and

(iii) Rates are fixed on a fair basis, and may, whenever necessary, be so adjusted as to help the economic development of the country.

The objections are:

(i) The fear of uneconomical management owing to the want of interest on the part of the railway officials, and

(ii) The apprehension that state interference with industry may be prejudicial to industry itself.

Acworth
Com-
mittee.

In 1921, an expert Railway Committee under the chairmanship of Sir William Acworth made important recommendations in regard to the future railway policy of India. The majority of this Committee condemned the existing system of the company management of state railways as essentially unworkable. But the minority favoured the continuance of the system of both state and company management, and desired that the Government should not be committed to a policy of state management for all railways. It was true that company management of a railway line had in some countries been found more economical, efficient, and business-like than state management ; but the conditions in India were very different. The Government was the owner of the property entrusted to the management of the companies, and as such it was bound to be responsible politically, financially, and morally for its working, so as to secure the best interests of the country. From past experience it could not be said that the companies had looked to the interests of the country in the same way as they ought to have done. This was the reason for the insistent Indian demand for the management of Indian railways by the Government. Further, a system of dual control where none had the power of an effective initiative was bound to result in great inefficiency and failure.

Secondly, the majority recommended that the whole of the capital for the future development of the Indian railways should be raised directly by the state, and loans should be floated both in England and in India. The Committee further recom-

mended the establishment of a systematic organisation to familiarise the population of India with the idea of subscribing to Government loans, and for this purpose they suggested that the assistance of banks in India should be enlisted.

But the most important and far-reaching recommendation of the Committee was the separation of the railway budget from the general budget. The Committee recommended that the Finance Department should cease to control the internal finance of the railways. The grounds for this important change were stated by the Committee in the following words: "Apart from the successive stages of discussion and estimating already indicated, there are frequent revisions and reviews of the figures and estimates which are necessitated mainly by the inclusion of the railway figures in the general budget of the country. The grants intimated to the railways at the end of March, that is, just before the commencement of the year to which they relate, are far from being 'fiscal' except in name. Changes are frequent throughout the year; they are sometimes necessitated by the developments in the railway position, which lead to increased demands which could not have been foreseen, or to the surrender of funds which for one reason or another has proved impracticable to spend advantageously within the period covered by the grant. But they are also occasioned by the considerations of an extraneous nature; grants may be cut down during the year because the Finance Department has to meet increased demands from other Departments, or they may be increased unexpectedly at a later stage of the year because of some unforeseen windfall."¹

Separation
of the
railway
budget.

During World War I, the financial embarrassment of the Government of India had compelled them to exercise the utmost economy and stringency in providing money for depreciation and renewals, with the result that the assets did not represent the full value which was shown on paper. It was also pointed out that the railways in India had no reserve fund from which they could draw in times of difficulty. Further, the Committee expressed the view that they should be run as a commercial concern and not as an appendage to the general finance of the

¹ Vide *Acworth Committee's Report*.



country. To remedy these defects the Committee recommended the separation of the railway budget from the general budget, and the recommendation was accepted by the Government. The terms on which the railway budget has been separated from the general budget rest upon a convention agreed to by the Assembly in September, 1924. According to this convention, the Central Revenues are entitled to receive from the railways a contribution equal to 1 per cent. of the capital at charge in the penultimate year *plus* one-fifth of the surplus profits in that year. The Assembly also stipulated that, if after payment of the contribution so fixed the amount available for transfer to Railway Reserves should exceed 3 crores, one-third of the excess over 3 crores should be paid to the General Revenues.¹

Financial
results.

The financial results of the operation of Indian railways have shown peculiarities of their own. From 1854 to 1898, the total loss resulting from the Indian railways was 58 crores. From 1898 the railways regularly earned annual profits till the year 1930-31. Up to the year 1923-24, the total profits from railways amounted to 114 crores of rupees. After the separation of the railway budget in 1924-25, contributions from the railways to the General Revenues varied between $5\frac{1}{2}$ crores and $6\frac{1}{4}$ crores annually, the total sum received by the Government during this period amounting to 41.65 crores of rupees.

Railway
finances
during the
depression.

The year 1930-31 brought upon the railways the serious effects of the trade depression. The railway surpluses began to turn into considerable deficits, and the system could be kept going only by loans from the Reserve Fund and afterwards from the Depreciation Fund. No contributions could be paid to the Central Revenues, and by 1936-37 the outstanding obligations of the railways on this account amounted to 30.75 crores, while the loans from the Depreciation Fund stood at 31.33 crores. This huge fall in railway receipts was due to a number of factors. Apart from the decline in the prices of all commodities and of raw materials in particular, resulting in a much reduced volume of goods traffic, there were other causes, like intense competition from motor buses and from river and coastal steamships.

¹ Vide *Budget for 1925-26*, p. 4 (Speech of the Honourable Sir Charles Innes).



Reviewing the financial position of the railways in 1936-37, the Railway Enquiry Committee, under the presidentship of Sir Ralph Wedgwood, remarked that there were many adverse factors against which the Indian railways had to, and would have to, contend. The improvement in trade, visible in recent years had been due to precarious factors and its effects might not be lasting; road-competition had come to stay; besides, some of the burdens assumed by the railways in the years of prosperity would continue to exist. The conclusion of the Wedgwood Committee was as follows: "The railways should not be regarded as a possible source from which contributions to the General Revenues might be derived. We are aware that it was hoped that the surplus earned by the railways might be such as to place the Central Government in a position to contribute revenues to the Provincial Governments, if not immediately, at least 5 years hence. This hope should no longer be maintained; but every endeavour should be made towards placing the railways in an assured position to pay their interest charges in full, and so avoid becoming a burden upon the General Revenues."¹

Wedgwood
Commit-
tee, 1937.

From 1936-37, however, the railways again showed surpluses. The actual surplus earned in 1936-37 was 145 lakhs. The revised estimate of the surplus for the year 1937-38 was put at 283 lakhs, while the Railway Member budgetted for a surplus of 256 lakhs in his estimates for 1938-39.² Under the Order-in-Council issued in accordance with the recommendations of Sir Otto Niemeyer, the provincial share of income-tax receipts would depend mainly on the extent of railway contributions to the federal revenues. The necessity for a vigorous policy of remunerative operation of railways was therefore imperative.

Recent
improve-
ment.

The Committee laid stress on the importance of giving to the Indian public an adequate voice in the management of their railways, and for this purpose they recommended the establishment of Central and Local Advisory Councils. The Indian public have always been insistent in their demand for a voice in railway administration so as to be able to ventilate their

Advisory
Councils.

¹ *Report of the Railway Enquiry Committee, 1937, p. 129.*

² *Vide Railway Member's Budget Speech, 14th February, 1938.*



grievances as regards the convenience of passengers, as also for a more judicious and impartial distribution of wagons for traffic. The Government ultimately yielded to this demand, and set up Central and Local advisory Councils at Delhi and other important railway centres. Though they have no legal powers, these bodies have been exercising considerable influence over the railway administration in the country. The Central Advisory Council is partly elected from among the members of the Central Legislature. The Standing Committee on Railway Finance, also partly elected by the Central Legislature, exercises some sort of control over financial matters.

Railway
organisa-
tion.

Formerly, the Government of India discharged its functions of railway administration through its member-in-charge advised by the Railway Board. The Acworth Committee recommended the appointment of a chief commissioner and four other commissioners, of whom one should be in charge of finance and three other commissioners should be in charge of three respective geographical divisions, Western, Eastern, and Southern. The Railway Board now consists of a chief commissioner and three other members. One of these members deals with administrative and traffic problems, the second with technical questions, and the third with the relations of the railway management with labourers. There is also a Financial Commissioner for railways.

Federal
Railway
Authority.

The Government of India Act of 1935 provided for the appointment of a Federal Railway Authority to supersede the present Railway Board. This Authority was to be in complete charge of the state railways of India, and would if necessary, take up the control and management of other forms of transport ancillary to the state railways. In the discharge of its functions it would be guided by such instructions on questions of policy as might be given to it by the Federal Government; and, subject to this guidance, it would act on business principles, due regard being had to the interests of agriculture, industry, commerce, and the general public.

Thirdclass
passengers.

The Indian public have, for a long time past, protested against the treatment generally accorded to third-class passengers. They provide by far the greater part of the coaching earnings and a large portion of the entire railway revenue. Although

some improvement has been effected in recent years in regard to the comfort of the third-class passengers, their interests have received much less attention than those of the upper-class passengers. There is a strong feeling in India that the provision of the improved facilities for third-class passengers has a priority of claim. This is necessary no less in the interests of the railways themselves than in those of the passengers, in view of the competition between motor and rail traffic.

The question of railway rates has long agitated the public mind in India. The Industrial Commission pointed out that there were complaints to the effect that Indian railway policy did not tend to foster the industries of the country.¹ Railway rates.

The governing principle in railway rating should be that internal traffic should be rated as nearly as possible on an equality with traffic of the same class over similar distances to and from the ports. Imported manufactured articles from the ports were often carried at a lower rate.²

Another charge against railway rating lay in the 'block rates' or higher mileage charges for short lengths imposed on traffic moving from a station near a junction with another system towards the junction, in order to travel a much longer distance over that other system. Further, each railway treated the length of its own system as the sole basis for its charges.

It is a matter for regret that many of the defects of the rate-structure pointed out by the Industrial Commission continue to exist even at present. The lack of a uniform policy in the quotation of rates is a glaring defect. The complaint that rates quoted for traffic from and to the ports discriminate in favour of exported and imported goods is insistent even now. The Railway Board, it is pointed out by the business community, generally take an extremely conservative standpoint in any issue concerning rates. The rates policy of the railways also affects adversely the industrial development of some provinces in their competition with the others.

Railways in modern times are a potent instrument in the development of the industries of a country. One important factor

¹ Vide *The Report of the Indian Industrial Commission*, p. 205.

² *Ibid.*, p. 207.

in the industrial development of pre-war Germany was a judicious manipulation of the railway rates. There seems to be no reason why a similar policy should not be followed in India with an eye to the development of her industries, especially in view of the fact that the largest railways are owned by the State. To deal with the difficult problem of rates, the Acworth Committee recommended the appointment of a Rates Tribunal consisting of an experienced lawyer as chairman and two other members to represent railways and commercial interests. But the Government did not take any steps to constitute a Rates Tribunal of a quasi-judicial character. A Rates Advisory Committee was constituted instead, in 1926, consisting of a chairman and two members representing commercial interests and the railways. The decisions of this Committee are not binding on any party, and it has not been able to satisfy the business community. An impartial Rates Tribunal alone with judicial powers similar to those of the body existing in England can be expected to solve the problem.

The Wedgwood Committee admitted that they were impressed with the feeling of grievance which appeared to exist in regard to the preferential treatment of export and import traffic. They also took into consideration the complaint that the railways were too 'individualistic' in quoting rates. In both these matters, they recommended that traders should have free recourse to the Railway Rates Advisory Committee.¹

2. POST-WAR DEVELOPMENTS IN RAILWAY TRANSPORT

During World War II, the demand for railway services increased very largely. The increased demand was due to military requirements and the diversion of traffic from shipping to rail. Earning from the railways increased. The gross traffic receipts of state-owned railways gradually rose from Rs. 99.62 crores in 1938-39 to Rs. 225.74 crores in 1945-46. The net receipts after providing for depreciation rose from Rs. 30.44 crores in 1938-39 to Rs. 76.59 crores in 1943-44. The surplus left over after payment of interest charges showed a phenomenal increase from Rs. 1.37 crores in 1938-39 to Rs. 50.84 crores in

¹ *Report of the Railway Enquiry Committee, 1937, chap. ix.*

1943-44. These large surpluses not only enabled the repayment of loans from the Depreciation Fund but made possible the payment of a handsome amount including arrear contributions aggregating Rs. 159·80 crores from the beginning of the war to the end of 1945-46.¹

The railways were able to meet the essential demand of the army and the war industries only by reducing their services to the civilian population.

Return journey fares and various other concessions which used to be given to encourage railway traffic were withdrawn. Moreover, the railways started a "travel less" campaign. For goods traffic an elaborate system of allocation of priorities was introduced. Thus the civilian population suffered considerable hardship. Though railway traffic increased considerably repairs were neglected and renewals were postponed. At the close of the war, it was found that railway equipment had been badly damaged due to excessive use and want of repairs ; consequently, the shortage of transport facilities continued even after the war. In common with other departments, the railway department also produced a postwar plan costing Rs. 319 crores but the calculation of planners was upset by the partition and the tactics of clamant labour. For all practical purposes the plan had no influence on later development.²

Partition affected the railway system badly. The total mileage of railways in India before Partition was 40,509 and the total length of railways in India at present is about 35,000 miles. All the railways are now Government-owned.

Partition not only led to the division of railway assets but also to the diversion of traffic on certain lines. Moreover, the railways had to handle heavy refugee traffic. All these put a great strain on railway administration and the facilities available to trade and industry were greatly reduced during the years 1947 and 1948.³

The increase in working expenses of the railways was also a matter of great concern for the administration. In June, 1946, the Standing Finance Committee for Railways found that there

¹ *Capital*, Diamond Jubilee Number, 1948.

² *Capital*, Diamond Jubilee Number, 1948.

³ *Report of the Fiscal Commission*, 1949-50, p. 243.

had been large increase in railway staff which was out of all proportion to the increase in the quantum of work which the railways were called upon to perform. They further found, that during the war there had been considerable increase in working expenses due to lax financial scrutiny.¹ Thereafter the Government of India appointed a high-power Railway Enquiry Committee to consider the economies that might be introduced to secure an improvement in net earnings as well as to ascertain the extent of staff surplus and methods of absorbing them. This committee is popularly known as the Kunzru Committee.²

The Committee made a broad financial and statistical survey of the Indian Government Railways since 1924 and came to the conclusion that there had been a substantial fall in the standard of efficiency and performance since 1938-39. Moreover, they found that the financial results, so far could not be considered satisfactory and thought that the immediate future of the railways could by no means be considered bright. They made a number of recommendations and the Government have already taken action on some of them.³

The war and Partition had disorganised the railway system to such an extent that to restore normalcy was not an easy task. Orders were placed for replacements of worn-out stock. Orders for a large number of locomotives were placed in the U.S.A., Canada and Britain and some of these locomotives have already arrived. To make India self-sufficient with regard to the supply of locomotives, the Government decided to establish a locomotive manufacturing industry, at Chittaranjan, in Bengal. The Chittaranjan Workshops are designed to build 120 steam locomotives and 50 spare boilers per year, estimated to cost over Rs. 14 crores. It is expected that these Works will be able to turn out complete locomotives in 1951.⁴ The Tatas have also started the manufacture of locomotives. The output of these

¹ Resolution passed by the Standing Finance Committee for Railways on the 14th June, 1946 and quoted in the report of the Railway Enquiry Committee, pp. 1-2.

² Mr. K. C. Neogy was the first Chairman of the Committee but when he was appointed a Cabinet Minister his place was taken by Mr. H. N. Kunzru.

³ Report of the action taken on the Report of the Railway Enquiry Committee.

⁴ *Commerce*, Annual Number, 1949.

two Works will be sufficient to meet the entire demand of railways in India. In spite of the shortage of locomotives and other railway materials, it was claimed by the Government that the gap between the demand for and supply of railway transport was largely bridged by careful planning and avoiding wasteful and cross traffic.¹ From November, 1949, the priority control organisations on all railways except one were wound up. Punctuality of passenger trains which had definitely suffered during the war and in the period immediately following the war was restored to a large extent. The number of passenger trains is gradually increasing. Measures have also been undertaken for the welfare of passengers particularly third class passengers, such as installation of electric fans in third class carriages, improvement in catering arrangements etc.

In January, 1949, railway administration introduced a three-class system on passenger trains in place of the then existing four-class system, though the Railway Enquiry Committee had recommended the postponement of this change. The changed system did not work well and resulted in loss in the aggregate railway earnings. The Administration modified the system and introduced four classes, namely Class I, II (Special), II (Ordinary) and III. This also did not prove a success and the old system of four classes,—first, second, intermediate and third—was reverted to early in 1950. These changes cost a large sum of money to public exchequer.

A proposal was made for the regrouping of railways, but the Railway Enquiry Committee did not favour regrouping immediately and urged the postponement of the proposal till the advent of normal times. Re-grouping is likely to result in increase of costs and in loss of efficiency, at least temporarily. It is, therefore, desirable that the matter should not be decided immediately in a hurry.

During British Rule railway rates were adjusted to the needs of the foreign trade of the country and this often prejudicially affected the interests of Indian industries. After the attainment of freedom, it was found necessary to revise the railways rates

¹ Statement made by Hon'ble Mr. N. Gopalaswami Ayyangar reviewing the work of Indian railways during the half-year ended September 1949.—*Commerce*, Annual Number, 1949.



and the revised railway rates came into effect from the 1st October, 1949. The Fiscal Commission thinks that the railway authorities should further examine the question of introducing changes so as to assist in the local and regional processing of agricultural and mineral produce and in the decentralisation of industries.

One of the very unsatisfactory features of the working of Indian railways in recent years has been the frequent occurrences of accidents causing death and severe injuries to large numbers of passengers. There is a tendency among Government officials to regard sabotage as the only cause of these accidents. But some people think that this view is not always correct. It is sometimes asserted that the Government ascribes accidents to sabotage in order to escape the payment of compensation. It is very desirable, therefore, to constitute impartial and independent tribunals to investigate the causes of accidents whenever they occur. It is quite possible that some accidents are due to defects in the railway tracks, or the high speed at which the trains are run, or the unsatisfactory state of the engine, or the drunken condition of the driver. Unless the real causes are found out and proper remedies are applied, it cannot be expected that the occurrence of accidents will cease.

3. RAILWAY CONTRIBUTION TO THE CENTRAL REVENUES

Railway
Contribution.

The railway contribution, as adopted in 1924, was later found to be unsatisfactory. The working of the convention had shown that, out of the surplus revenues of the railways, since the separation in 1924-25 to the end of the financial year 1949-50, amounting to Rs. 269 crores, a sum of Rs. 222 crores had been appropriated to the general revenues, leaving a balance of Rs. 47 crores only for the various railway revenues. Had the railways been treated like other commercial undertakings and surpluses realised from their working been subjected to income-tax, general revenues would have been benefited, as computed by the Central Board of Revenue, to the extent of Rs. 193 crores only. It was, therefore, felt that the convention had operated to the detriment of the nationalised railway undertaking, and had greatly handicapped the railways in the building up of various funds out of which replacement costs and development costs were to be met.

On the other hand, under the 1924 convention, the payment to general revenues was indeterminate, because in the then existing circumstances it depended, firstly, on the amount of the railway surplus, and secondly, on the *ad hoc* decision arrived at during the budget year on the division of that surplus. Such a situation was obviously unsatisfactory. A drastic remedy of completely repudiating the principle of separation and adopting the pre-convention practice was open to the objection that it would introduce an element of uncertainty in the general budget. A fluid relationship, liable to be changed from year to year, would be fair neither to the railways nor to the general revenues.

On the recommendation of the Convention Committee, presided over by Mr. Gopalswami Iyenger, the Constituent Assembly adopted in December, 1949 a new convention which has so altered the relationship between the general finance and railway finance as to give the former the status of the sole shareholder in the railway undertaking. Under the New Convention, general finance has been guaranteed by the railways a fixed dividend of 4 per cent. on the shareholding or the capital loaned, for a period of five years from 1950 to 1955, interest charges being met by the general revenues out of this amount. It has been also laid down that a Committee of the Parliament of India should review the rate towards the end of this period and suggest, for the years following it, any adjustment considered necessary. The New Convention also provides for the allocation to the Depreciation Fund a sum not less than Rs. 15 crores during the next quinquennium. The balance is to be divided between General Purposes Reserve Fund for maintaining financial equilibrium, and the Development Fund which would meet the cost of passenger amenities, labour welfare, and necessary but unremunerative projects.

New
Convention.

The virtue of this fresh arrangement is its restraint. A net return, so small in itself, is likely to bring to the general revenues a yearly contribution of about Rs. 5 crores on the basis of the capital invested at present. The adoption of this reasonable view between the extreme recommendation of the Wedgwood Committee (1937) for stopping the railway contribution altogether and the insistent demand on the part of the general tax-payer for increasing contribution from the railways



will give the railways an opportunity of building up the reserve funds and push on with various necessary projects. The net railway contribution was Rs. 6.37 crores, according to the budget estimates for 1950-51.

4. ROAD-RAIL COMPETITION AND CO-ORDINATION

A problem of a serious nature has arisen in recent years in the shape of a strong competition between road and rail transport. The competition between railways and coastal shipping has also sometimes been severe, but it has never assumed dimensions attained by the road-rail competition. Since World War I there has been a phenomenal increase in the volume of road transport in India. The total mileage of roads in India is over 300,000, and the total number of buses and lorries is quite large.

The road policy of the Government has undergone a considerable change. In 1928, the Jayakar Committee recommended the creation of a Central Road Fund. In the following year, the Government of India increased the duties on motor spirit to finance this Fund. Up to the end of 1934-35, the total revenue of the Road Fund amounted to 641 lakhs of rupees, of which more than 500 lakhs was actually distributed among provinces. Questions of importance affecting the roads of India were discussed periodically at sessions of the Indian Road Congress convened by the Government of India.

The recent road policy of the Government has helped to bring into prominence the chaotic way in which competing transport services have been allowed to develop in India. More than 48 per cent. of the railway-mileage of India has a metalled roadway running parallel to it. The Mitchell-Kirkness Report estimated in 1932 the annual loss to the Indian railways on account of road competition at 190 lakhs. In 1937, the Wedgwood Committee estimated the loss at Rs. 450 lakhs a year. This loss was tending continuously to increase, because road-mileage was increasing, roads were becoming better, and the organisation of motor transport was steadily improving.

On the other hand, the motor services were in many cases bringing increased traffic to the railways by connecting the railway stations with distant villages. Besides, the motor transport

Central
Road
Fund.

Loss to
railways.

Benefits
from
motor
transport.

gave the railways a large goods traffic in petrol and motor accessories. Motor transport also contributed before World War II annually about Rs. 1 crore to the Road Development Account, Rs. $4\frac{1}{2}$ crores to the Central Revenues, and Rs. 3 crores to the provincial, state, and municipal revenues, making a total of over $8\frac{1}{4}$ crores.¹ Motor transport has many advantages over railway transport, particularly in the case of short-distance traffic. But the Indian railways represent an investment of over Rs. 800 crores, the interest and annuity-charges on which have to be borne by the Indian taxpayer. In England, regulations were imposed upon motor-transport under the Road Traffic Act of 1930. In the U.S.A., the Inter-state Commerce Commission exercises control over the motor-transport agencies. In Italy and in Germany, the railways are state-owned, and hence there are very strict restrictions on road transport. The Wedgwood Committee recommended that the Indian railways should be given full powers to run road services for passengers and goods, to hold financial interests in road companies, and to make arrangements with contractors for the running of feeder road services. The Indian Railways (Amendment) Act of 1933 had already enabled the Governor-General in Council to sanction the running of road services by railways.

The railways can also adopt a number of innovations for increasing their own traffic. More frequent services, better third-class carriages, greater facilities for the conveyance of passengers and goods, cheap return tickets, and observance of strict economy in the administrative expenditure of the railways are some of the measures that can be adopted.

Co-ordination between road and rail transport is desirable, but it is not easy to bring it about in practice. One of the purposes of the Motor Vehicles Act passed in 1938 by the Indian Legislature was to secure this object. It provided for the appointment of Provincial and Regional Transport Authorities with wide powers over motor traffic. Regulations were adopted regarding the licensing of motor-drivers and also regarding the speed limits and the limits of weight for vehicles using the road. Another important provision of the Act was that all

Co-ordination of transport.

¹ Mitchell-Kirkness Report, 1932.



motor vehicles would have to be insured against third-party risks. It was hoped that by these means competition between railways and motor transport would be considerably restricted.

5. POST-WAR ROAD TRANSPORT

During World War II, many strategic roads were constructed in the north-eastern parts of India but shortage of petrol and the high prices of imported cars considerably hampered the growth of road transport. In 1943-44 there were 69,976 miles of metalled roads and 1,57,287 miles of unmetalled roads in, what was then called, British India. In December 1943, a conference of Chief Engineers of all provinces and some of the larger States met in Nagpur to discuss the planning of India's future road development. They divided the roads into four classes viz.—

(i) National highways, (ii) Provincial and State Highways, (iii) District roads and (iv) Village roads, and recommended that all these classes of roads, except the national highways should be developed by the provinces or states. Maintenance and development of the national highways should be a charge on central revenues. The conference aimed at a target of 400,000 miles of roads of all classes at a total cost Rs. 448 crores, within a period of 10 years immediately following the war.¹ Under the old Constitution, roads were included in the provincial list but in 1947 the responsibility for the national highways was assumed by the Central Government. In the new Constitution, national highways have been included in the Union list. By the middle of 1946, all provinces as well as the Government of India were ready with their first five-year plans. Financial stingency of the subsequent years, however, led to considerable scaling down of the plans. Thus the target for national highways was reduced from 25,000 miles for undivided India to 18,000 miles for the Indian Union.² Some of the States however are paying particular attention to road development. In Bombay State, for example, 21 roads, one major bridge and three foot bridges were completed recently. The Madras Government sanctioned about 2000 capital works, the cost of which was estimated at Rs. 9

¹ *Report of the Fiscal Commission, 1949-50*, p. 245.

² *Eastern Economist*, Annual Number, 1949.

crores. Up to the end of June 1949, the Government incurred an expenditure of about Rs. 161 lakhs in execution of these works.¹ To enable the provincial Governments to establish statutory transport boards for proper regulation of the transport systems within the provinces, the Central Government in 1948, passed the Road Transport Corporation Act. Such boards were also set up in Bombay, Madras and West Bengal.

Road
Transport
Corporation

This Act was however sought to be replaced by another Act. In November, 1950, the Minister of State for Transport, Sri Santhanam, moved for consideration in the Parliament the Road Transport Corporation Bill as reported by the Select Committee. The bill empowered the State Governments to nationalise road transport and sought to replace the previous Act of 1948. The bill is still on the legislative anvil.

The establishment of automobile manufacturing industry will also facilitate the development of road transport. Already several works have been established, of which two are important one, at Matunga, near Bombay, and the other at Konnagar, near Calcutta. The Government has also granted protection to this industry in anticipation of actual production. Regarding rail-road competition, the white paper issued on road transport clearly laid down the policy of the Government. In the matter of passenger traffic, the Government proposed to achieve co-ordination by setting up a road transport undertaking in which railways would be given 20 per cent financial interest. In the matter of goods transport, the Government proposed to encourage road transport for short distances and to reserve long-distance traffic, except in perishable and fragile goods, for railways. On 6th September 1950, a Central Road Research Institute was established in Delhi to carry on fundamental and applied research on road materials and road construction.

Automobile
manufac-
turing
industry.

Regulation
of Rail-Road
competition.

Central
Road
Research
Institute.

6. SHIPPING

Shipping is no less important for a nation than railways from the economic point of view. In ancient times, not only was an active trade carried on along the extensive sea-board of the country, but Indian vessels carried cargoes to Persia, Arabia

Shipping
in ancient
India.

¹ *Commerce, Annual Number, 1949.*



Gradual
decline.

and parts of Eastern Africa on the west, and to Malaya and the Indian Archipelago on the east. During the mediaeval period, the foreign shipping of India lost much of its previous enterprise, but an active coastal traffic was continued. In the eighteenth century, ships were built in Indian yards for the East India Company's service. But, owing to various factors, the protection given to British shipping and the building of steel ships in Britain, ships ceased to be built in India. Thus, by the beginning of the nineteenth century, Indian shipping practically went out of existence, and it was not until the beginning of the present century that fresh efforts were made to revive the industry.

Domina-
tion of
foreign
concerns.

At the present moment the part played by Indians in mercantile shipping is very small. India sends out very few vessels to foreign countries, and her maritime activity is confined almost entirely to her coastal sea-board. Even in the field of coastal shipping, a large part of the business is in the hands of foreign steamship companies. Indian-owned shipping concerns have not developed quickly on account of the intense and unfair competition of the established foreign concerns. It has, for example, been complained that a very large proportion of the export and import trade of the country is in the hands of foreigners, and an analysis of the conditions shows that the foreign domination in this particular sphere is the result of the preferential treatment given to foreign firms by their national steamship lines. Lala Harkishen Lal, giving evidence before the Indian Fiscal Commission of 1922, stated: "The present foreign steamship companies give preferential treatment to foreign exporting houses as against the Indians engaged in that line, with the result that it is impossible for Indians to take part in a very profitable branch of business."¹

Rate wars
and de-
ferred
rebates.

The port-to-port rates quoted by these foreign lines have often been higher than the rate from a foreign country to India. As a result, in some areas foreign goods have enjoyed advantage in competing with goods coming from other parts of India through coastal shipping lines. Moreover, these foreign concerns have killed or injured some Indian steamship lines by

¹ S. N. Haji, *Indian Mercantile Marine*, Indian Shipping Series, Pamphlet No. 4.

means of unscrupulous rate-wars or by such devices as the grant of deferred rebates.

No elaborate discussion is needed to stress the necessity of developing a mercantile marine owned and operated by Indians. Besides being an important business in itself, it can remove the evil effects of foreign monopolies, provide a new career for enterprising young men, and serve as a potential auxiliary of national defence. The Government of India was prevailed upon to appoint a Mercantile Marine Committee in 1923. The Committee recommended a system of licensing of steamers plying between coastal ports with a view to gradual Indianisation. They also recommended that arrangements should be made to provide training in marine engineering to Indian young men. Suggestions were also made for the purchase by the Government of one of the British lines and for the grant of bounties to Indian companies. But the only tangible result was the arrangement made for training in marine engineering, and the 'Dufferin scheme' was launched.

Advantages of a national mercantile marine.

In 1928, Mr. S. N. Haji of the Scindia Steam Navigation Company, introduced in the Legislative Assembly a Bill providing for the reservation of coastal traffic in India for concerns of which 75 per cent. of the shares was vested in Indian nationals. The Bill further provided that, in the case of joint-stock companies operating shipping lines, 75 per cent. of the directors, including the chairman, should be Indians and the same percentage of the members of managing firms should also be Indians. The Bill, however, could not become an Act on account of the decision of the Government to wait till the constitutional position was clarified at the Round Table Conference. The consideration of another Bill regarding the abolition of the system of deferred rebates was also postponed on the same ground.

Mr. Haji's Coastal Reservation Bill.

The constitutional issue was sought to be solved by the provision in the new Government of India Act to the effect that there should be no discrimination against British commercial interests. This meant that reservation of coastal shipping for Indian nationals would be *ultra vires*, and that any consideration shown to Indian concerns would have to be extended to British concerns also.



Bill to
control
coastal
shipping.

Later an attempt in the direction of developing a mercantile marine in India was that made by another non-official member of the Central Legislative Assembly who in 1937 introduced a Bill to control the coastal traffic of India. This Bill¹ did not go as far as Mr. Haji's but only sought to limit unfair competition between Indian-owned and foreign concerns in coastal traffic. The Bill received qualified support from the non-official members of the Legislature and the general public. What India desires is that, while coastal traffic should be entirely in the hands of the children of the soil, Indians should also have a substantial share in the carrying trade of India with foreign countries.

Post-war
shipping.

Before World War II, the share of Indian vessels in the costal trade was quite a fraction and there was no Indian vessel carrying cargo to distant countries overseas. During the six years ended June from 1933-34 to 1938-39, the average cargo carried on the coast per year was about 69 lakh tons out of which, the share of India companies was only 18 lakh tons.² During World War II, many Indian ships were requisitioned for war services as a result of which Indian shipping received a setback.

Ships built
at Vishakha-
patnam.

After the cessation of hostilities, Indian Companies entered into a programme of rehabilitation and development. Two fundamental defects in the shipping position are—(1) shortage of tonnage and (2) shortage of trained man-power.³ The Government of India have now begun to take steps to remove these defects and to encourage Indian shipping generally. The ship-building yard at Visakhapatnam which was established during the war and was so long engaged in repairing ships have now begun to manufacture ships. The first passenger ship "Jala-Usha" built in this yard was launched in 1948. Subsequently three other vessels were also constructed.

Neglect in
West Bengal.

It is a very unfortunate fact that West Bengal, which was at one time an important place for building ships, has not considered it necessary to revive this industry. This is of the

¹ A Bill to control the coastal traffic in India by Sir Abdul Halim Chuznavi.

² *Eastern Economist*, Annual Number, 1949, p. 1031.

³ *Report of Fiscal Commission*, 1949-50, p. 245.

utmost importance for foreign and coastal trade. It is to be hoped that public opinion will compel the authorities to take early steps in this matter. The foreign commerce of the port of Calcutta is equal to that of Bombay and immensely larger than that of the other ports, and it would be but fit and proper for Calcutta to have a large ship-building yard.

As regards increasing the tonnage, the Reconstruction Policy Sub-Committee on Shipping recommended that the target of tonnage to be achieved in a period of 7 years, and if possible, 2 years earlier, should be 2 million. They further recommended that the entire coastal trade should belong to Indian shipping. Seventy-five per cent. of the trade with Burma, Ceylon and the neighbouring countries and fifty per cent. of the trade with the distant overseas countries, thirty per cent. of the trade in the far eastern waters should also be secured for Indian shipping.¹ The Government of India generally accepted these recommendations and decided to set up three corporations on a state-cum-private ownership basis with an authorised capital of Rs. 10 crores each, but owing to financial difficulties, it was not possible to establish three corporations immediately.²

The first Government-sponsored shipping corporation was registered in March, 1950. The Government has subscribed to 74 per cent. of the capital and 26 per cent. is subscribed by Managing Agents, Messrs. Scindia Steam Navigation Co. Ltd. The present issued capital of the Company is Rs. 20 million. The Company has purchased two vessels of about 14,400 gross tons and these vessels are now operating in the India-Australia route. It is hoped to extend the activities of the company to cover the India-Far East, India-Malaya and India-East Africa trades. The Scindia Steam Navigation Co. Ltd. and the India Steamship Co. Ltd. have been provisionally admitted to the India-U.K.-Continent shipping conference and are operating along western routes.³ Thus, Indian vessels have now begun to carry cargoes to distant countries. With a view to reserving the coastal trade to Indian shipping the Government introduced

¹ *Report of the Fiscal Commission*, p. 246.

² *Administration Report of the Ministry of Commerce*, 1949-50, p. 28.

³ *Indian Trade Bulletin*, Independence Number, p. 20.



a licensing system. Under this system, foreign vessels are permitted to ply on the coast to the extent considered necessary.

Coastal
trade.

In the coastal trade, the percentage of cargo carried by Indian ships rose to 53 in 1948 and 62 in 1949. The tonnage of Indian shipping engaged on coastal trade now stands at 247,113 tons.¹

But the increase in the share of cargo has not been proportionate to the increase in tonnage. Due to the fall in the Burma rice imports and other factors, there has been a reduced demand for coastal shipping. Thus, there has been an excess of tonnage over requirements and the Government is considering proposals for reducing the volume of tonnage employed in the coastal trade.²

Total
tonnage.

The total tonnage of Indian shipping increased from 1.27 lakh tons in 1946 to 3.5 lakh tons in 1948 and 3.96 lakh tons in 1949.³ Though there has been increase in total tonnage yet it is unlikely that the target of 2 million tons will be reached within the period fixed. The financial difficulties of the Government as well as of the private shipping firms, together with the high cost of construction in India's ship-building yards, have prevented any large-scale building in India. The same difficulty has also held up purchases abroad with the result that little progress has been made for achieving the target prescribed by the Policy Committee.⁴

Rear-
Admiral
Barnard's
view.

The mercantile marine is important not only for the commercial and industrial development of the country but also from the standpoint of its defence. As Rear Admiral Barnard rightly points out, "maritime power does not come from war-ships alone. The back-bone of this power comes from merchant shipping fleet, from ship-building yards and large coastal fishing fleet of small crafts." Emphasising that India must have a sea-trade to live in a modern world, he further observed that the tonnages required for petroleum products, machinery and things like military equipment were vast and they could not possibly be brought in by air-freight alone in the foreseeable future.⁵

¹ *Indian Trade Bulletin*, September, 1950. In the last 3 months the percentage share was a little over 75 per cent.

² *Administration Report*, Ministry of Commerce, 1949-50, p. 28.

³ *Eastern Economist*, Annual Number, 1949, p. 1031.

⁴ *Report of the Indian Fiscal Commission*, 1949-50, p. 246.

⁵ A broadcast talk on Indian Navy from A.I.R. Calcutta Station by Rear Admiral Barnard, Commanding the Indian Naval Squadron. He

Marine Engineering Colleges have been established in Bombay and Calcutta for training of certified engineers. The training ship "*Dufferin*" which previously used to train both executive and engineer cadets will now cater for executive cadets only.¹ A Nautical College has been established for the training of Executive (Deck) Officers and a system of apprentice training has been introduced.²

7. INLAND WATER TRANSPORT

In pre-railway days, inland navigation was highly developed, and there were several thousand miles of navigable waterways. The use of steam vessels in inland navigation was first started on the Bhagirathi—when a service was started from Kulpi to Calcutta in 1823. A regular service was started between Calcutta and Agra in 1842. With the construction of railways, the inland water-ways were neglected and allowed to decay. Many rivers, which were formerly navigable, gradually became unnavigable. Water transport is the cheapest form of transport for heavy goods and bulk cargoes. If industrialisation is to succeed, India must provide herself with this most economical form of transport. Moreover, the strategic importance of waterways must not be forgotten. In many parts of the country, water transport is the only means of transport. In the Second World War, the Burma campaign could not be started until supplies were assured by inland water transport. It is wrong to suppose that waterways and railways cannot be developed simultaneously. In Holland, Germany and many other Western countries, they have been developed side by side. The total length of waterways in India affording perennial flow amounts to about 25,000 miles, comprising 10,000 miles of rivers and 15,000 miles of canals. Of the former, about 6,000 miles are navigable to a minimum of about three feet draught and of these about 5,000 miles are in Bengal and Assam. The canals are mostly for irrigation but it is estimated that about 4,000 miles would be suitable for power-driven crafts and the remaining 11,000 could

Importance.

also observed, that long before the Christian era Indian ships dominated the seas from Indonesia and Malaya across the Red Sea and they traded and spread Indian culture wherever they went.

¹ *Administration Report of the Ministry of Commerce, 1949-50.*

² *Report of the Fiscal Commission, 1949-50, p. 247.*



be utilised for boat traffic.¹ The question of improving the internal waterways is already receiving the attention of the provincial governments and the Central Waterways Irrigation and Navigation Commission. But the proper development of water transport can only take place on a regional basis and not on a provincial basis.

8. AVIATION

Recent
origin.

The development of aviation as a means of transport is of recent origin. The first regular air line service in India was started by Tatas in 1932 and in the first year, 7,567 lbs. of mail were carried. In the subsequent year, another company started operations. Before 1939, international air lines had begun to touch Indian air ports on their way to the Far East. Civil air transport continued to develop till the outbreak of the war when the Government requisitioned the air lines' multi-engined air crafts.²

Progress.

The importance of developing air transport was clearly shown during the war. For the defence of the country as well as for the quick transport of men and materials in peace and war time, air transport had to be developed. Air transport may also be used to relieve the distress caused by natural calamities, such as, earthquake or flood. In the recent Assam earthquake followed by flood, aeroplanes rendered great service. Possibilities of commercial flying were realised by the industrialists and immediately after the war, there was considerable expansion of air transport. Civil aviation has made a rapid progress during the last five years.³

Years		Passengers carried	Freight lbs. carried	Mails lbs. carried
1945	...	24,090	852,068	480,616
1949	...	358,000	13,300,000	4,900,000

An Air Licensing Board was established to allocate routes and in 1949, twelve air transport companies were operating scheduled services. Several external services were also started. Regular

¹ S. C. Bose, *Modern Economic Geography*, p. 191.

² *Capital*, Diamond Jubilee Number, 1948.

³ *Indian Trade Bulletin*, Economic Policy Number, July 1, 1950, p. 38.



air services had been started between India and Pakistan. In 1948, a company, Air India International Ltd. was formed for operation of an air link with the U.K. This is a joint state-cum-private enterprise. The Government holds 49 per cent. of the shares with an option on further 2 per cent. The company operates a regular service between Bombay and London. A regular air service is being maintained between Calcutta and Bangkok. The Government have also entered in Bilateral Air Transport Agreements with several countries including U.S.A., Pakistan and Ceylon. Negotiations are going on with the U.K. for the conclusion of such an agreement.

In order to help the air lines to secure more load, an All-Up Air Mail scheme has been introduced by the Government. Under this scheme, all first-class internal mails on routes, where air transport is available, are carried by air. Night air services have also been introduced between certain selected towns to carry air mails, air parcels and air freight. With effect from the 1st March, 1949, Government is giving financial assistance to Indian air transport companies; flying clubs and other air operators calculated at the rate of 9 as. per gallon of petrol used in flying within India and from India to Pakistan. Progress has also been made in the training of flying and technical personnel. Civil Aviation Training Centres have been opened at Allahabad and Saharanpur. Flying clubs, which also occupy an important place in the training scheme, are given financial aid.

An air-craft manufacturing industry has been started at Bangalore. The construction of the first India-made glider is nearing completion at the Civil Aviation Training Centre at Allahabad.

The rapid development of air transport has not however been on sound lines. The operational costs of some of these companies are very heavy; the volume of business available in some lines is small. These have caused considerable losses to some of the companies. The companies should try to reduce their operational costs. Moreover, there should be a limit to the number of aeroplanes plying in a particular line and surplus planes should be diverted to international routes.

Air-mail scheme.

Air training.

Aircraft manufacture

Heavy operational costs.

Diversion necessary.

CHAPTER XXII

INDUSTRIAL ORGANISATION AND FINANCE¹

1. THE MANAGING AGENCY SYSTEM

The Man-
aging
Agency
system.

THE pioneering and management of large-scale industry in India present certain distinct features which differ from company promotion and management in other countries. Industrial enterprises in this country have been mostly promoted and controlled by a system which is peculiar to India. It is known as the Managing Agency system. The more important jute mills, cotton mills, tea gardens, sugar factories, electric supply companies, and light railways were started and are still managed by managing agents. There are many industries which would never have been established in the country but for the initiative and the risk taken by the managing agents. Without the assistance of the Tatas, the iron and steel industry and the hydro-electric industry would not have been developed as they have been.

Origin
and growth.

The origin and growth of Managing Agencies form an interesting subject of study. The system was first adopted in European concerns. Among the representatives of European firms trading in India there were some persons of outstanding ability and enterprise who began to utilise the experience gained in their own businesses for promoting other kinds of industrial and commercial activity. When these were successfully started, the organisers managed the new concerns on behalf of the share-holders and became known as the Managing Agents. The system was subsequently adopted for promoting and organising Indian concerns.

Organisa-
tion of
firms.

Managing agency firms are organised as individual proprietorships, private partnerships, private limited companies, or public limited companies. The second and third forms appear to be the most common, and the more important houses are

¹For a fuller treatment of the subject see Lokanathan, *Industrial Organisation in India*, and N. G. Das, *Industrial Enterprise in India*.



organised under either of these two forms.¹ Whatever the form in which the agency firm is organised, the services rendered by them to the concerns under their management are similar.

Broadly speaking, there are three main types of managing agency firms in India, (1) European managing agency firms in Calcutta, (2) Indian managing agency firms in Bombay, and (3) Indian managing agency firms in Ahmedabad. There is one important distinction among them in respect of their tenure. The managing agency is hereditary and permanent almost invariably in Ahmedabad, and in some instances in Bombay, but not so in Calcutta.

The agency firms are formed by a group of individuals with strong financial resources and considerable business enterprise.² Their services may be considered under three heads: (1) services in regard to pioneering and promoting of industries, (2) services in regard to finance, (3) services in regard to the organisation and administration of industry. The managing agents performed services in India which Issue Houses were doing in other countries. They promote joint-stock companies, employ their own funds or the funds of their friends and relatives for financing their requirements, and manage their business. Thus they are the promoters, financiers, and managers of the businesses they have established. They also act as sale or purchase agents for the concerns under their control. The remuneration which they charge for the services they render takes the form of a commission. The basis on which this commission is calculated varies from one industry to another and in different parts of the country. Thus, in the case of the cotton mill industry in Bombay, the system of a commission on profits has been prevalent for a long time, but in Ahmedabad, a commission on the sales basis existed until recently. The agents are able to supplement their usual remuneration by earning substantial commissions in respect of various subsidiary services rendered by them. During the great depression of 1929-33, the managing

types of
managing
agency

Functions
of
managing
agents.

¹ It was pointed out by the Indian Central Banking Enquiry Committee that out of 36 managing agency firms whose names appeared in the Calcutta Exchange only seven were limited companies and the rest were private firms.

² *Report of the Industrial Commission*, pp. 12-13.



agency system proved a godsend to many industries, *e.g.*, tea. Because of the agents, bank accommodation was easier to obtain. Some of the defects of joint-stock business, were avoided by the close association of ownership and control under them, giving unity of aim and motive. By virtue of this system, Indian industry was able to reap some of the advantages of administrative integration.

Defects of
the
system.

While recognising that the managing agency system has played a very important part in the industrial development of the country, it must be admitted that the system has given rise to some grave defects. The managing agents were, until 1936, outside the scope of the Indian Companies Act, and, in the absence of any statutory control, they were able to carry on their activities in a manner highly injurious to the interests of the shareholders. The hereditary and practically irremovable character of managing agencies, the system of remuneration on a sales basis, the practice of rendering subsidiary services such as the purchase of machinery and stores on behalf of their client-concerns, the inter-investing of mill funds, the control exercised over the directors so as to turn them into mere puppets are some of the main grounds on which the system has been severely criticised. The agents have also been accused of numerous mal-practices. Not infrequently, charges of dishonesty, inefficiency and uneconomical management have been brought against them. Thus the abuse of the system has led to the general belief that it has outlived its usefulness. It is, therefore, not surprising that there has arisen an insistent demand that the system should be abolished, or at least reformed and placed under statutory control.

Demand
for statu-
tory con-
trol—the
passage of
the Indian
Companies
Amend-
ment Act.

In these circumstances, the Indian Companies Act was amended in 1936 so as to bring the managing agents for the first time under legal control. The aim of this amended Act was to remove some of the gravest defects of this system. The tenure of the managing agents was fixed at 20 years¹; the charging of commission on the basis of sales was prohibited²; the practice of inter-investment of mill funds was curbed, no company being allowed to purchase the shares and debentures of any other

¹ Section 87 A.

² Section 87 C.



company under the same managing agency, unless approved by the unanimous decision of the Board of Directors of the purchasing company.¹ The rendering of subsidiary services was not banned altogether, but the receipt of any additional remuneration for such services was made subject to the sanction of a special resolution of the company.² The independence of the directorate was sought to be secured by limiting the number of directors nominated by managing agents to a maximum of one-third of the total number.³

But the system has not been reformed to the desirable extent. Representations have been made that these controlling measures have not produced the desired effect; while, on the other hand, taking advantage of the statutory recognition and status extended to this system, the managing agents are conducting the affairs of the companies in their own interests and much against the interests of the shareholders. In a Ministry of Commerce Memorandum issued towards the end of 1949, the Government of India, having regard to these defects and yet recognising that the system still has its uses, have come to the conclusion that the restrictive measures of the 1936 Act should be further tightened up.⁴ The Government propose that not only additional restrictions should be imposed on the operation of the managing agents but that the central government may declare, from time to time, that in respect of specified industries or companies the system shall not be allowed.

Further reforms needed.

The industrialists have read in these proposals a motive "which will virtually reduce the managing agency system to a cypher in the industrial economy of the country, and which, if carried into effect, must inscrutably result in the rapid disintegration of some of the industries themselves".⁵ Their suggestion is that the emphasis must fall on the proper administration of the law, and not on changing it, for "the malpractices which are now in vogue are the result, not so much of the absence of rigour in the existing law, as of the laxity in the

Criticisms of the new proposals of Reforms.

¹ Section 87 E.

² Section 87 c (2).

³ Section 87 I.

⁴ Ministry of Commerce Memorandum, Annexure VI.

⁵ *The Statesman*, November 7, 1949, p. 9.



enforcement of its provisions."¹ To conclude, change or no change in the Act of 1936, the managing agents must reorientate some of their activities so as to justify the grip they possess over Indian economic life.

2. INDUSTRIAL FINANCE

Reports of the Industrial Commission and External Capital Committee. Central Banking Enquiry Committee.

The problem of industrial finance in India has engaged considerable attention in recent years. The question was brought to the forefront by the Industrial Commission in their Report published in 1918. It was also considered by the External Capital Committee in 1924. But it received full attention from the Central Banking Enquiry Committee in 1929. Not only did the Committee make a detailed examination of the entire banking system of the country, but it also conducted a searching enquiry into the existing position of industrial finance in India, particularly the part played by the Indian banks in providing it.

Two kinds of finance needed.

Broadly speaking, organised industry requires two kinds of finance, namely, fixed (or block) capital and floating (or working) capital. The former includes not only the initial capital for the purchase of land, the erection of factory buildings and the installation of plant and machinery, but also the funds required for extension, replacement, and reorganisation. The floating or working capital is required for the payment of wages, the purchase of raw materials and stores, marketing charges, and other current expenses. The problem of industrial finance in India relates both to the provision of long-term financial facilities and to the supply of current finance. In western countries the short-term financial needs of industries are met without much difficulty, and there the complaint is chiefly made about the inadequacy of long-dated capital. But in India, industries suffer not only from a lack of long-term financial facilities but also from the insufficiency of working capital and the heavy cost of obtaining it.

Indian investors are proverbially nervous about industrial shares and debentures. Land constitutes perhaps the most attractive field for investment. After land, come Government securities, postal cash certificates, and port trust and municipal

¹ *Indian Finance*, November 12, 1949, p. 1073.

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debentures. A very small proportion of the people's savings is put in industrial shares. India's banking system is modelled not on the continental system but on the pre-war English system of deposit banking and is ill-adapted for the task of long-term industrial financing. Issue houses, investment banks, and underwriting firms are conspicuous by their absence in India. There is hardly any organisation in the country which grants long-term loans to industries against their fixed assets. In these circumstances, industries experience great difficulties in raising their long-dated capital. Cases in which the share capital is over-subscribed are exceptional, and in the majority of instances the amount obtained from share capital is inadequate even for the initial fixed capital expenditure. Debentures, again, are not a popular form of investment in the country; and it is almost impossible for industries either to supplement their share capital or to obtain the necessary finances for extension and re-organisation by resort to this method.

It often happens that the capital raised by the issue of shares is soon spent in the erection of factory buildings and the installation of the necessary plant and machinery, very little being left for meeting the current expenses. Most industrial concerns, therefore, have to seek finance from outside sources. But the difficulty of securing this finance is great, and the cost of obtaining it is enormous. The Imperial Bank and other joint-stock banks play some part in the provision of this sort of finance. But industrial concerns are severely handicapped by the fact that the banks do not lend only against the hypothecation of liquid assets but insist on the guarantee of the managing agents.¹ Current finance.

Banks, however, are not the only or even the chief source of supply of current finance for industry. In the cotton mill industry of Bombay and Ahmedabad, the financial assistance provided by the banks is of an insignificant character. In the former, 9 per cent., and in the latter, only 4 per cent. of the total finance required by the mills was obtained from the banks

¹ Although the Imperial Bank (Amendment) Act of 1934 authorised the Bank to lend directly against the hypothecation of goods, there is no evidence to indicate that the Bank is willing to dispense with the additional guarantees of the managing agents.



in 1930. Public deposits are the most important source from which the mills in Bombay and Ahmedabad obtain their current finance. These constituted 11 per cent. of their total finance in Bombay and as much as 39 per cent. in Ahmedabad¹ in 1930. In ordinary times the system has certain inherent advantages, and cotton mills under sound and prudent management have been immensely benefited under it during the last 30 or 40 years. But it is a fair-weather friend and is likely to prove a source of great embarrassment in times of crisis when the public make sudden and heavy withdrawals. In recent years, this source of the supply of current finance has considerably dried up. During the economic depression large withdrawals were made. A considerable number of businesses was landed in disaster.

The
managing
agency
system.

Reference has already been made to the important part played by the managing agency system in the provision of financial assistance to industries. Managing agents themselves subscribe largely to the share capital and debentures of industrial companies under their management and frequently induce their friends and relatives to take up considerable parcels of such shares and debentures. They offer their guarantee for the loans obtained from the banks and their reputation helps the mills to draw large amounts of deposits. They also make considerable advances to their companies out of their own funds, whenever the companies are in need of finance for meeting their capital expenditure or for development and extension. Not only do the managing agents directly subscribe to the shares and debentures but they also assist in their flotation in the market. Thus they perform the same functions in India as the Issue Houses of England and the Industrial Banks of Germany.

But the credit which managing agents claim for the financial assistance rendered by them to their constituent companies is far greater than they deserve to get. If one goes deep into the problem, it will be evident that the concerns which they financially assist are under their control and management and all the details of their financial position are well known to them.

¹ *Indian Central Banking Enquiry Committee's Report*, vol. i, pt. 1, p. 278.



Thus, the risk they run in lending to them is less than in ordinary investments. Besides, the rates of interest charged by them are much higher than what they would have obtained by investing in shares of other companies.

The necessity of setting up special institutions for solving the problem of industrial finance in India was recognised by the Industrial Commission as well as by the Central Banking Enquiry Committee. The Industrial Commission favoured the establishment of an institution in India on the lines of the Industrial Bank of Japan. The Central Banking Enquiry Committee recommended that those Provincial Governments which could find it necessary to furnish better financial facilities to industries within their respective provinces should take the initiative in starting Provincial Industrial Corporations. Such Industrial Corporations should obtain their capital by issuing shares and debentures to the public, and the Provincial Governments should subscribe a substantial proportion of the share capital. The Government might also give a limited guarantee for the debentures. Further, funds might be obtained by accepting fixed deposits from the public.¹ These corporations should specialise in the provision of long-term capital to industries which should continue to obtain their working capital from existing institutions.

Need of
Industrial
Credit
Corpora-
tion.

It was further suggested by the Committee that an All-India Industrial Corporation might be established if the Central Government and the Legislature were convinced of its need, and meanwhile the Provincial Corporations should form a Central Association to promote and safeguard their common interests.

Before World War II, only two Provincial Governments started special institutions for the financing of industries. The Industrial Credit Syndicate of Bengal was registered in March, 1937, with an authorised capital of Rs. 50,00,000, with the special object of financing small and cottage industries in the province. An agreement was made with the Government of Bengal under which the Provincial Government would from time to time pay to the company (1) one-half of any losses of capital attri-

Industrial
Credit
Syndicate
of Bengal.

¹ *Indian Central Banking Enquiry Committee's Report*, vol. i, pt. 1, pp. 301-303.



butable to the first 10 lakhs of rupees lent by this company, and (2) one-half of any losses of capital attributable to any amount lent by the company after and in addition to the company's first loans, provided that the capital sums covered by these subsequent loans in origin formed a part of the sum of 10 lakhs of rupees. The Provincial Government further agreed to pay to the company in respect of each of the first 5 financial years the amount spent in each year in administrative expenses or a contribution of Rs. 20,000 towards these expenses, whichever was less. The maximum amount that could be lent by the company to a single customer was limited to Rs. 15,000, and the duration of the loan was not to exceed 10 years.

The United
Provinces
Industrial
Corporation.

In the United Provinces, the Industrial Finance Committee (1935) recommended the establishment of a joint-stock bank under the title of the United Provinces Credit Bank Ltd., with the distinct object of providing both long- and short-term financial facilities to the provincial industries. The initial authorised and issued capital should be fixed at Rs. 25 lakhs, and the Provincial Government should guarantee a dividend on the initial paid-up capital of the Bank at the rate of 4 per cent. *per annum* free of income-tax. Under certain conditions the Government guarantee would terminate after 5 years, but in no case would it continue for more than 20 years. The United Provinces Industrial Corporation was established more or less on the lines of these recommendations. It would have a capital of Rs. 15 lakhs fully paid-up. The Government would guarantee payment of Rs. 60,000 annually to enable the company to declare a dividend and would also contribute Rs. 20,000 annually for the first five years towards one-half the cost of the management. Assistance would be confined to industrial companies having a capital not exceeding Rs. 50,000.

These were, however, extremely feeble efforts. The problem of industrial finance in our country cannot be solved unless industrial banks are established in the important industrial centres for providing long-term financial facilities to small-, medium-, and large-scale industries. These banks may be federated into an all-India institution. It is true that there was an under-current of feeling in certain quarters that the experiment of industrial banking actually made did not prove a



success. But these institutions failed either because they were not established on a firm footing or because they were not conducted on sound principles. While, therefore, these failures should afford lessons for the more careful management of similar institutions in future, they should not be regarded as a ground for doubting the success of a well-conceived scheme for the financing of Indian industries.

No action appears to have been taken by the Central Government on the recommendations of the Central Banking Enquiry Committee until 1946, when Sir Archibald Rowlands introduced a Bill in the Legislature for the establishment of an Industrial Finance Corporation of India. The Bill was subsequently modified in some respects and re-introduced by Free India's Finance Minister. It was passed and assented to by the Governor General on the 27th March, 1948. The purpose of establishing the Corporation is to make more readily available to "industrial concerns" in India medium- and long-term credits particularly in cases where normal banking accommodation is inappropriate or recourse to capital issue methods is impracticable. Under the Act an industrial concern has been defined to mean any public limited company or co-operative society incorporated by an Act of the Legislature for processing of goods or in mining or in the generation or distribution of electricity or any other form of power.¹

The Industrial Finance Corporation.

The authorised capital of the Corporation was fixed at Rs. 10 crores, divided into 20,000 shares of Rs. 5,000 each, the paid-up capital being Rs. 5 crores in respect of 10,000 shares issued from the 9th to the 11th August, 1948. Of the capital issued in the first instance the Central Government and the Reserve Bank were each to subscribe for 2,000 shares, scheduled banks for 2,500 shares, insurance companies, investments trusts and other financial institutions for 2,500 shares and co-operative banks for 1,000 shares. The Corporation was empowered to issue and sell bonds and debentures not exceeding at any time five times the amount of the paid-up share capital and the reserve fund of the Corporation. The

¹ S. K. Basu, *Financing of Post-war Industry and Industrial Finance in India* (2nd ed.).



shares as well as the bonds and debentures of the Corporation are guaranteed by the Central Government in respect of the repayment of principal and payment of interest and dividend. The Corporation was further empowered to receive deposits repayable not less than five years from the date of their making and not exceeding the amount of ten crores of rupees.

Functions
of the
Corporation.

The Corporation has been established for the purpose of financing large-scale private industries in our country. Such private industries, again, will have to be public limited companies. It will render its assistance to such industries in three principal ways. It may guarantee long-term loans not exceeding 25 years raised by industrial concerns; it may underwrite the issue of stock, shares, bonds or debentures by industrial concerns; and finally, it may grant loans or advances to, or subscribe to debentures of industrial concerns, repayable within a period not exceeding 25 years.

The Corporation has been definitely prohibited from subscribing to the share capital of limited liability companies. The Corporation has been authorised to borrow up to five times the amount of its paid-up capital and its reserve fund.

The general superintendence and direction of the affairs of the Corporation have been entrusted to a Board of twelve Directors, of whom four are nominated by the Central Government and two by the Reserve Bank, and six are representatives of scheduled banks, insurance companies, investment trusts and other financial institutions and co-operative banks. The Board is to be guided by such instructions on questions of policy as may be given to it by the Central Government.

During the first two years of its working, the Industrial Finance Corporation has confined its financial assistance to loans and advances against a mortgage of tangible assets. The rates of interest have varied from 5 to 5½ per cent. The total amount sanctioned for various categories of industries was Rs. 3,42,25,000 during the first year and Rs. 3,77,00,000 during the second year of its operation. The industries assisted include textile, machinery, chemicals, cement, electrical, engineering, ceramics, iron and steel, aluminium, sugar, etc.¹

¹First and Second Annual Reports of the I. F. C., 1949 and 1950.



It is a matter for regret that the scope of the Corporation is much too limited, for it is debarred from assisting private limited companies and partnerships and also from taking up shares in the industrial companies.

With the continued apathy of the capital market, the role of the Industrial Finance Corporation of India in meeting the medium and long-term requirements of industry assumed greater importance. Of the total resources of the Corporation amounting to Rs. 10.31 crores, loans and advances on 31st March, 1950 stood at Rs. 3.15 crores as against Rs. 29.90 lakhs on 31st March, 1949.¹ Investments in Government securities amounted to Rs. 6.96 crores. The rates of interest charged by the Corporation on loans and advances were substantially lower than the over-all cost of borrowing from the open market and other sources, and compared favourably with the terms on which debentures were issued by a few companies during the year. The Corporation assisted industrial concerns in the preparation of their schemes of expansion and reorganisation and indicated, in several cases, possible means of effecting economies. It watched the progress of the borrowing industrial concerns by carrying out periodical inspections and calling for progress reports. With a view to augmenting its resources, the Corporation placed on the market on 1st August, 1949, 3½ per cent. Bonds, 1960, the total amount raised being Rs. 5.30 crores by the end of the year.

Loans and
Advances.

Rates of
interest.

Augmenta-
tion of
resources.

Following the establishment of the Industrial Finance Corporation of India in July, 1948, Bombay, Bihar and Uttar Pradesh were reported to be making arrangements for setting

¹ *Loans given by Industrial Finance Corporation.*—The Industrial Finance Corporation had sanctioned loans to various industries in the past seven months (ending in November, 1950) to an extent of Rs. 2,28,95,000, according to the Finance Minister, Sri C. D. Deshmukh.

Replying to Dr. M. M. Das, the Finance Minister said that no hard and fast schedule of priorities had been laid down for the purpose of grant of loans. The Corporation when considering any application for loan invariably consulted the appropriate Ministries of the Government of India and generally took into account among other things the importance of the industry to national economy.

During the period, he said, rayon industry and cement industry were granted a loan of Rs. 50 lakhs each, while cotton textiles were given Rs. 35 lakhs, electrical engineering Rs. 20 lakhs, mechanical engineering Rs. 19 lakhs, sugar industry Rs. 20 lakhs and textile machinery Rs. 15 lakhs.



Madras.

up similar institutions. In Madras, the Industrial Investment Corporation was established in March, 1949. The authorised capital of the Corporation is Rs. 2 crores, Rs. 1.02 crores being contributed by the State Government. The Government have guaranteed the share value and a minimum taxable dividend of 3 per cent. per annum for a period of ten years. The main functions of the Corporation would be to grant long-term loans to industries, particularly to concerns which ordinarily find it difficult to obtain credit on economic terms owing to their being new enterprises, and to underwrite shares and debentures of

Saurashtra.

industrial concerns. Saurashtra set up in January, 1950, by an ordinance, the Industrial Finance Corporation which is expected to commence operations soon. Of an authorised capital of Rs. 2 crores, 50 per cent. would be issued, the State Government and the State-owned banks providing Rs. 51 lakhs and the other financial institutions the rest.

Problem of industrial capital.

As the Fiscal Commission rightly observes, "the problem of industrial capital in India has a long history". The Indian Industrial Commission of 1916-18 found the "reluctance of the Indian investor . . . to risk his money in new undertakings . . . unless they were related to industries which were established and practised extensively" to be a serious obstacle in the way of industrial expansion. The Fiscal Commission confined itself to the issues connected with the import of foreign capital. The difficulty about the availability of capital which has handicapped industrial developments since its very beginning still continues. Indeed, it has now become extremely acute. Capital formation is a long process, which is logically susceptible of division into three stages: (a) the first stage is concerned with the creation of savings, *i.e.*, a surplus resulting from an excess of income over expenditure; (b) the second stage is related to the mobilisation and canalisation of savings; and (c) the third stage is concerned with actual spending on capital goods.

Views of Industrial Commission and Fiscal Commission (1921-22).

Capital dependent on saving and investment.

The problems arising at each stage are: first, the problem of saving is dependent on (a) the will to save, (b) the capacity to save, (c) the leakages that take place from the stream of savings, and (d) the addition to the stream of savings. Then comes the problem of conversion of savings into investable funds. Thirdly,



arises the problem of the utilisation of the investable funds for the acquisition of capital goods.

The difficulty of securing investable funds for financing industrial undertakings has become acute since the beginning of 1947. From the middle of 1948, however, difficulties of short-term finance began to be increasingly felt due, among other factors, to the expansion in export trade, insufficiency of transport resulting in the locking up of the funds (which lasted till about the middle of 1949), increasing holding of stock in shortages, and the rise in prices. The position in this respect slowly and gradually improved and by the middle of 1949, the difficulty of large-scale industry in regard to short-term funds was somewhat eased. Small-scale industry, however, still finds it extremely difficult to secure working capital. The main hindrances to capital formation are as follows: widespread misgivings about the policy of nationalisation existed, although under the Industrial Policy Statement of the Government of April 6, 1949, nationalisation was to be restricted and, under article 31 of the Constitution, full compensation for acquiring industrial undertakings was to be paid. Another hindrance is the high level of taxation on the larger incomes which is regarded as an important factor discouraging investment. The malpractices on the part of some managing agents is the third hindrance. Gambling in Stock Exchanges is one of the causes hindering capital formation. Further, the control of capital issues is considered to be prejudicial to the growth of capital.

Difficulty great.

Main hindrances to capital formation.

The Fiscal Commission examines at length India's demand for capital which consists of two components, viz., the capital necessary for the maintenance of the existing enterprises of the community and the capital required for new investment. As regards domestic saving, it expresses the view that reliable statistics are not available. It then refers to the example of the U.S.S.R. and Japan, where very large savings were made and invested in industries. In Soviet Russia the saving in some years was 31 per cent. of the national income. In the view of Dr. Collin Clark, Japan in the early years of her industrial

Savings in U.S.S.R. and Japan.

* Report of the Fiscal Commission, 1950.



development saved half of her entire income. The Commission observes that the limits of industrialisation—particularly in an under-developed economy like India's, are almost rigidly set by the volume of internal savings that can be mobilised for industrial development unless foreign capital is available on a scale that will ease the strain on domestic resources.

Big gap
between
savings and
capital-re-
quirements.

After analysing India's savings and investments, the Commission comes to the conclusion that there is a big gap between India's domestic saving and her minimum capital requirements.

Need for
foreign
capital.

In a previous chapter we have examined at some length the question of foreign capital, but in view of recent developments it is desirable to discuss the question a little further. As it is not likely that during the next few years India will be able to secure, by internal savings, the amount of capital needed for its industrial requirements, the need for foreign capital becomes apparent. There is another reason why the country will need foreign capital in the immediate future. India's development plans will entail heavy expenditure on capital goods and equipment, much of which will have to be imported from abroad and paid for in foreign currency. With India's present balance of payments position, the only way of obtaining these imports would be to draw on accumulated savings like the sterling balances or to obtain capital from abroad.

There are, besides, other secondary advantages that India can derive from a judicious import of foreign capital. In so far as foreign capital is accompanied by technical knowledge, including industrial research facilities or the training of technicians, managers and administrators on modern methods, the financial arguments in favour of imports of foreign capital are further strengthened.

Fields for
foreign
capital.

As regards the fields to which foreign capital should be invited, it should be confined to: (a) prospects in the public sector of the economy which depend on the import of capital goods, plant, machinery, equipment, stores, etc., from abroad, *e.g.*, hydroelectric schemes or on foreign technical assistance in the establishment or management of new lines of manufacture, and (b) undertakings in the private sector which involve new lines of production and where indigenous capital and management are not likely to be forthcoming.



The form in which foreign capital is obtained is an important consideration. Broadly speaking, the indirect form of investment will be suitable in all those cases where foreign capital is needed only to pay for foreign machinery and equipment. In some fields of the public sector, Government may consider it desirable to enlist the services of foreign entrepreneurs for limited periods.

Form of foreign capital.

The Government policy regarding foreign capital was announced in the Government of India's Resolution of the 6th April, 1948. Strict regulation of foreign capital was needed when India was a subject country. But, after the advent of independence, the situation became quite different. The object of regulation should, therefore, be the utilisation of foreign capital in a manner most advantageous to the country. Indian capital needs to be supplemented by foreign capital not only because our national savings will not be enough for the rapid development of the country but also because, in many cases, scientific, technical and industrial knowledge and capital equipment can best be secured with foreign capital. In order to give foreign investors an assurance regarding their future position, the Prime Minister made the policy of the Government quite clear in this matter. He said:

Policy enunciated in Government resolution.

Prime Minister's statement, April, 1949.

"In the first place, I would like to state that the Government would expect all undertakings, Indian or foreign, to conform to the general requirements of their industrial policy. As regards existing foreign interests, Government do not intend to place any restrictions or impose any conditions which are not applicable to similar Indian enterprise. Government would also so frame their policy as to enable further foreign capital to be invested in India on terms and conditions that are mutually advantageous.

Secondly, foreign interests would be permitted to earn profits, subject only to regulations common to all. We do not foresee any difficulty in continuing the existing facilities for remittance of profits, and the Government have no intention to place any restriction on withdrawal of foreign capital investments, but remittance facilities would naturally depend on foreign exchange considerations. If, however, any foreign concerns come to be



compulsorily acquired, the Government would provide reasonable facilities for the remittance of proceeds.

Thirdly, if and when foreign enterprises are compulsorily acquired, compensation will be paid on a fair and equitable basis as already announced in Government's statement of policy.

Government have stated before that, as a rule, the major interest in ownership and effective control of an undertaking should be in Indian hands. They have also stated that power will be taken to deal with exceptional cases in a manner calculated to serve the national interest. Obviously there can be no hard and fast rule in this matter. The Government will not object to foreign capital having control of a concern for a limited period, if it is found to be in the national interest and each individual case will be dealt with on its merits. In the matter of employment of personnel, Government would not object to the employment of non-Indians in posts requiring technical skill and experience, when Indians of requisite qualifications are not available, but they attach vital importance to the training and employment of Indians even for such posts in the quickest possible manner.

I should like to add a few words about British interests in India which naturally form the largest part of foreign investments in India. Although it is the policy of the Government of India to encourage the growth of Indian industry and commerce (including such services like Banking, Shipping and Insurance) to the best of their ability, there is and will still be considerable scope for the investment of British capital in India. These considerations will apply equally to other existing non-Indian interests. The Government of India have no desire to injure in any way British or other non-Indian interests in India and would gladly welcome their contribution in a constructive and co-operative role in the development of India's economy."¹

The Prime Minister, during his visit to the United States and Britain in 1948 and 1949, tried to impress on foreign investors the desirability of investing their funds in Indian enterprises. But so far very little foreign investment has taken place.

¹ Statement made by the Prime Minister in the Constituent Assembly of India (Legislative) on 6th April, 1949.

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An additional incentive to dollar investment in India is contained in the new and easier terms, announced on the 30th June, 1950, for the repatriation of foreign capital.

Additional incentive announced, June, 1950.

At present, the repatriation of sterling capital is allowed freely, which practice will continue, the relaxation of existing rules being in respect of investments other than by residents of the sterling area and three other soft currency countries, namely, Norway, Sweden and Denmark.

A Finance Ministry Press Note says that in respect of capital owned by residents of countries, other than those mentioned above, the following twofold relaxations have been devised:

(I) Capital invested after the January 1, 1950, in projects approved by the Government of India may be repatriated at any time thereafter to the extent of the original investment and the proceeds of that investment, and (II) any part of the profits derived from investments and ploughed back into projects with the approval of the Government of India may be treated as investment for the purpose of permitting repatriation.

Appreciation of any capital invested under the above two heads, the Press Note adds, will not qualify for repatriation and the amount available for repatriation will be restricted to the amount of rupees originally invested or ploughed back. In the case of investment by means of goods and services, the amount will be the rupee value of such goods or services as recorded in the books of the company or firm concerned at the time of investment. Moreover, such repatriation facilities will not apply to purchase of shares on the stock exchange unless it is an integral part of an approved investment project.

Applications for investment of foreign capital in India as well as for repatriation are to be made to the Reserve Bank of India, which will refer them to the Government of India and obtain their orders.¹

But we must not place too much reliance on foreign capital. As the Fiscal Commission rightly observes, "while it should be the duty of State policy to create and maintain conditions favourable to the inflow of all such foreign capital as desires

Undue reliance on foreign capital harmful.

¹ It is estimated that the investment of dollar capital in this country amounts to about Rs. 20 crores, but the figure for total foreign capital is still being computed by the Reserve Bank.—*P. T. I.*, dated June 3, 1950.

to come to India, it must concentrate on the development of the domestic sources. Foreign capital can, at the best, supplement the country's domestic resources."¹ We should always be on our guard against foreign influence, economic or political, coming in the train of foreign capital, for such influence may undermine the basis of our freedom and ultimately become a menace to the preservation of the independence of our country.

¹ *Report of the Fiscal Commission, 1949-50, p. 215.*

CHAPTER XXIII

BANKING AND CURRENCY PROBLEMS

1. NATIONALISATION OF THE RESERVE BANK

Since its establishment the Reserve Bank had no independent existence of its own, so far as its larger sphere of work was concerned. It was, for all practical purposes, a subordinate branch of the Bank of England. During World War II, it functioned as the Note-Printing Press of the Government of India under the control of the British Government. In the narrower and internal sphere of its activities, however, the shareholders enjoyed some amount of freedom. But it never attained the position of a National Bank.

Reserve Bank a Note-printing press.

Note a national bank.

The demand for nationalisation of the Reserve Bank, as the Hon. Mr. K. C. Neogy observed in Parliament, "is older than the Bank itself". In recent times, the demand had gathered considerable force.

Demand for nationalisation.

There was a widespread feeling that the Reserve Bank was fast losing its status as a public institution and that its policies were being framed by a coterie of capitalists in their own interests. Vested interests had become firmly entrenched in the shareholder's places. The shares had come to be concentrated in the hands of a few shareholders and those of a particular province, *viz.*, Bombay. The number of shareholders had declined from 92,047 on April, 1935 to 45,692 on June 30, 1946, while the average number of shares held by each shareholder had increased from 5.4 to 10.9. The number of shares in the Bombay area had expanded at the expense of the other areas. The recent bank failures and the reluctance or inability of the Reserve Bank to extend its assistance to the distressed institutions had also aroused a great deal of public resentment. The demand for nationalisation had come to be voiced in the Indian legislature from time to time. The debates showed that the legislature very strongly felt that the institution, which was to play such an important part

in the economic life of the country, should be immediately brought under public ownership so that a proper co-ordination between the currency, credit and monetary policy and the Government's financial and fiscal policy might be effected. Mr. Liaquat Ali Khan, Finance Member of the *Interim* Government declared in his Budget speech of 28th February, 1947 that the advantages of nationalisation outweighed its disadvantages and concluded that the Reserve Bank should be nationalised.¹

Nationalisation Bill.

The Bill to bring the share capital of the Reserve Bank of India under public ownership was introduced in the Constituent Assembly in August, 1948 by the Finance Minister of Free India. The Reserve Bank of India (Transfer to Public Ownership) Bill, 1948 was passed by Indian Legislature on 3rd September, 1948. The Act came into effect from 1st January, 1949.

Objects.

In the statement of Objects and Reasons, the following reasons were mentioned, for introducing the Bill, *viz.*, "to implement the Government policy that the Bank should function as a State-owned institution and to meet the general desire that the control of the Government over the Bank's activities should be extended to ensure a greater co-ordination of the monetary, economic and financial policies." The main provisions relate to the acquisition of shares against payment of compensation, direction of policy, constitution of central and local boards and lastly, certain amendments consequent on India's membership of the international monetary institutions.²

Provisions.

All shares transferred to Government.

All shares in the capital of the Bank were to be transferred to the Central Government, and as full compensation, the Government was to issue to every shareholder an amount calculated at the rate of Rs. 118-10 as. per share (being the average of monthly market quotations during March, 1947—February, 1948) in promissory notes of the Central Government, bearing interest at 3 per cent. per annum and repayable at par at such date as might be specified by the Government.

As regards management, the general superintendence and direction was to be entrusted to a Central Board composed of a Governor, two Deputy Governors, ten Directors (four of them

¹ See S. K. Basu, *Recent Banking Developments* (3rd ed., pp. 96-97).

² *Reserve Bank of India Bulletin*, October, 1948.



representing the four Local Boards), and one Government official, all nominated by the Central Government. The Directors were to hold office for a period of four years. A retiring Director was eligible for renomination for not more than two full consecutive terms. As regards the Local Boards, the division of the country into four areas continues and each Board is to consist of three nominated Directors to represent territorial and economic interests as well as the interests of co-operative and indigenous banks, in place of eight Directors under the previous Act, of whom five were elected by shareholders.

Central
Board of
Directors.

The Central Government may from time to time give such directions as it may, after consultation with the Governor, consider necessary in the public interest.

The powers of the Government to remove the Governor or Deputy Governors or supersede the Central Board and to replace it by any other agency remain unaffected.

The nationalisation of the Bank will hardly bring any change in its status.¹ The nationalised Reserve Bank of 1949 does not differ materially from the private shareholders' Bank of 1948. Mr. K. C. Neogy pointed out, while he was piloting the Nationalisation Bill through Indian Legislature, "there have been the closest relations between the Governor of the Reserve Bank and the Government of India, particularly in the Ministry of Finance."

2. THE RESERVE BANK AND AGRICULTURAL FINANCE

The Reserve Bank of India was authorised by Section 54 of the Act to create a special Agricultural Credit Department. The functions of this department are: (1) To maintain an expert staff to study all questions of agricultural credit and to be available for consultation by the Governor-General in Council, Provincial Governments, Provincial Co-operative Banks and other banks, and (2) to co-ordinate the operations of the Bank in connection with agricultural credit and its relations with provincial co-operative banks and any other banks and organisations engaged in the business of agricultural credit.

Functions
of the
Agricul-
tural
Credit Dept.

The Rural Credit Department of the Commonwealth Bank of Australia supplied the principle on which the Indian

¹ S. K. Basu, *Recent Banking Developments* (3rd ed., pp. 100-101).

system has been organised. But the functions here are purely advisory, while the Rural Credit Department of the Australian Bank has separate funds of its own, contributed partly by the Bank and partly by the Commonwealth Government, and is authorised to issue debentures and make advances against agricultural produce for periods not exceeding 1 year.

The provisions of the Reserve Bank Act in relation to agricultural finance are to be found in sub-section 2 (b), 4 (a), 4 (c), and 4 (d) of Section 17. The financial accommodation which the Reserve Bank has been authorised to grant covers the following cases:

1. Loans and advances against Government paper for 90 days to provincial co-operative banks and through them to co-operative central banks and primary land-mortgage banks.

2. Similar loans and advances to provincial co-operative banks and central land-mortgage banks declared to be provincial co-operative banks and through them to co-operative central banks and primary land-mortgage banks, against approved debentures of recognised land-mortgage banks, which are declared trustee securities and which are readily marketable.

3. Advances to provincial co-operative banks for 90 days against promissory notes of central co-operative banks and drawn for financing seasonal agricultural operations, or rediscount of such promissory notes maturing within 9 months.

4. Loans for periods not exceeding 90 days to provincial co-operative banks against promissory notes of approved co-operative marketing or warehousing societies endorsed by provincial co-operative banks and drawn for the marketing of crops, or rediscount of such promissory notes maturing within 9 months, or loans and advances on the promissory notes of provincial co-operative banks supported by warehouse receipts, or pledge of goods against which a cash credit or overdraft has been granted by the provincial co-operative bank to marketing or warehousing societies.

In explaining the part the Reserve Bank can take in the provision of agricultural finance, the Bank in its Statutory Report has emphasised its character as a bankers' bank in emergency and not their ordinary financing agency. The Reserve Bank thinks it impossible for it to lend to agriculturists

Provisions
of the
Reserve
Bank Act
relating to
agricul-
tural
finance.

Principles
on which
the Bank
furnishes
agricultural
finance.

direct or to advance large sums to co-operative banks or indigenous bankers for re-lending them to the cultivators as a matter of course. Nor does it think that it can take the place of the Government in this connection. What can be done by a Government with its own revenues is not open to the Bank owing to the limitations inherent in its constitution. In outlining the principles on which the Bank can make advances to co-operative banks, it stresses the necessity of their recognising that they must stand on their own legs, obtaining their normal finance from deposits and not relying upon the Reserve Bank for its supply. Moreover, sound co-operative banks now are suffering not from a shortage but from a plethora of funds, which makes it increasingly difficult for them to find a suitable channel of investment within the movement. The Reserve Bank intends to follow the same basic principles in making advances to co-operative banks as those for other forms of credit and will come into the picture only when the ordinary pool of credit is found to be insufficient to meet the reasonable requirements of agriculture.

While the Reserve Bank is prepared to deal with provincial co-operative banks on the lines indicated in Section 17 of the Act as quoted above, it has laid down certain conditions for the grant of advances. The conditions are: (1) The Reserve Bank must have the right to inspect the banks approved for financial assistance; (2) such banks must furnish periodically financial statements in certain forms; (3) they will have to maintain with the Reserve Bank minimum balances, the amounts of which will be prescribed from time to time; and (4) the funds advanced must be repaid within the time-limit allowed by the Act, and accommodation should definitely be for helping the banks to tide over a temporary shortage of funds.

The position taken up by the Reserve Bank of India is based upon the orthodox conception of the functions of a central bank. But there has been a strong feeling in the country that the provisions of the Act in relation to agricultural finance are entirely inadequate. The conditions laid down by the Bank for making advances to provincial co-operative banks appear to be unnecessarily stringent. The Co-operative Associations have, from time to time, made insistent demands for extending the

Suggestions for affording greater facilities.



provisions of the Act in this respect. As early as 1935, the Indian Provincial Co-operative Banks' Association urged that the Agricultural Credit Department should not merely be an agency for advice and consultation but should be used as a regular channel for supplying normal agricultural credit to co-operative banks. It has been suggested in some quarters that cash-credit facilities should be granted to provincial banks. It has also been suggested that Section 17, 4 (d), which at present allows advances against promissory notes of provincial co-operative banks which have granted cash-credits or overdrafts for financing the marketing of crops, should be extended to include promissory notes given for loans and advances granted for the same purpose. It has further been urged that Section 17, 2 (a) should be so amended as to include the provincial co-operative banks in order that urban co-operative banks dealing with small artisans and traders may be able to approach the Reserve Bank through them. As at present constituted, the Reserve Bank cannot contribute much to the provision of long-term rural credit. But there is a wide-spread feeling in the country that the Reserve Bank should invest in the debentures of land-mortgage banks and arrangements should be made to enable the Reserve Bank to give long-term agricultural credit.

Position of
the money-
lender.

In any scheme for effective improvement of agricultural credit, the question of bringing the money-lender within the banking structure is important. The money-lender is the largest supplier of such credit, and if a contact could be established between the money-lender and the money-market it would be of substantial advantage to the agriculturist. But there are great difficulties in the way. The Reserve Bank does not think it possible to have direct relations with the money-lenders, but it is willing to cultivate indirect relations with them through the scheduled banks in certain forms of agricultural finance. If the scheduled banks discount the bills of approved money-lenders drawn for advances to cultivators against produce, the Reserve Bank will be prepared to re-discount such bills at special rates by the grant of rebates to scheduled banks. This concession will enable the scheduled banks to make advances to money-lenders for such purposes at low rates of interest and

the money-lenders in their turn will be able to make finance available to the cultivators more freely and more cheaply.

The performance of the Reserve Bank as a research and advisory institution has been promising, but public opinion in India seems to hold the view that its activity as an agency for the provision of seasonal and emergency finance to agriculture has been, on the whole, not very satisfactory.¹ Considering the peculiar conditions of an underdeveloped economy like India's, the Bank should, according to many economists, have broadened the scope of the assistance it renders to the agriculturist. The activity of the U. S. Federal Reserve Banks during the thirties and forties can be cited as an example of what the Central Bank of a country can do to develop its rural economy. But the size and nature of the problem do not warrant direct, regular, and large-scale central banking assistance, but on the contrary, other agencies than the Central Bank should be created for the purpose of providing agricultural finance which may be directly or indirectly accommodated from time to time by the Reserve Bank.

The authorities of the Reserve Bank of India have contended that within the framework of the Reserve Bank of India Act and subject to its limitations, the Bank has always been willing to help the movement and has spared no pains to explore ways and means to offer financial accommodation at concession rates. As regards the criticism that its conditions are much too rigorous, it is according to them, based on hypothetical grounds, and not on any real difficulties experienced. All that the Bank asks for is the fulfilment of certain conditions which have generally been accepted as pre-requisites of sound banking practice.²

Point of
view of
Reserve
Bank.

The Reserve Bank, it has been contended by the Chief Officer of its Agricultural Credit Department, has since its establishment, been anxious that the largest possible use should be made of their existing provisions of the law. In these circumstances, an important effort was made in January, 1938 when a scheme was formulated for providing finance for the marketing

¹ *Vide* Narayanswami and Narashinham, "Economics of Indian Agriculture."

² Article by Mr. K. S. Rao, Chief Officer, Agricultural Credit Dept., *Reserve Bank of India Bulletin*, August, 1947, p. 487.



of agricultural produce through the agency of the money-lender. But owing to certain difficulties the scheme had to be abandoned. Efforts were also made at the same time to utilise the co-operative movement for the supply of agricultural finance and a circular was issued, laying down the procedure to be followed by provincial co-operative banks in obtaining such finance from the Bank. The purpose was certainly not to scare away the cooperative banks but to see whether the business of the bank applying for assistance was being conducted on sound banking lines. The response to this circular was, however, very poor. Another scheme was prepared in 1942 under which the Reserve Bank offered to grant accommodation for the marketing of crops at a concession rate. This scheme also had a poor response. Although the response to all its schemes was pretty discouraging, the Bank was prepared in 1944 to extend the scheme of rebate to cover bills and promissory notes drawn for the purpose of financing seasonal agricultural operations. Only two Provincial Co-operative Banks availed themselves of the facilities offered under the scheme to the extent of Rs. 3.55 lakhs.

The Reserve Bank no doubt insists upon certain safeguards in the case of Provincial Co-operative Banks, but in the case of scheduled banks, it should be remembered, the provisions applied are much more strict.¹

✓ 3. THE RESERVE BANK AND THE MONEY MARKET

Dual control of currency and credit prior to 1935.

Prior to the establishment of the Reserve Bank of India in 1935, India was one of the few countries where a dual control was exercised over currency and credit. The Government controlled the currency and the credit situation, so far as it was controlled at all, was controlled by the Imperial Bank. While in other countries the control of both currency and credit was centralised in and fixed upon a Central Bank, there was in India, as the Hilton Young Commission rightly pointed out, an antiquated division of responsibility in this respect. Divided control meant divided counsel and failure to co-ordinate. With the inauguration of the Reserve Bank, the control of both credit and currency was placed in the hands of a single authority.

¹ *The Reserve Bank of India Bulletin*, August, 1947, p. 491.



The chief instruments of credit control at the disposal of a Central Bank in a country are: (1) credit rationing, (2) moral suasion, (3) the discount rate, and (4) open-market operations. So far as the first weapon is concerned, it is out of the question in India, for the Reserve Bank has not yet attained such a position of strength and respectability that in rationing credit it may expect to escape from the charge of favouritism. By moral suasion is meant the advice given or request made by the Central Bank to the market. The effectiveness of this instrument obviously depends on the willingness of the market to co-operate with the Central Bank. It is idle to expect any useful result from this particular policy in India unless the Reserve Bank were to attain the position of the Bank of England or the Federal Reserve Banks in the United States. Even in those countries, this method is of limited utility.

Instru-
ments of
credit
control.

Credit
rationing.

Moral
suasion.

In the pre-war days the discount rate was regarded to be the most potent instrument of central banking control. In 1914, all the Central Banks relied upon it. Even in 1931, when the Macmillan Committee reported, the bank rate method was visualised as one of the two main methods of control. The bank rate policy derived its importance from the fact that the rate, when effective, was the key to the whole structure of interest and discount rate in the market. But though it was an important instrument of Central Bank policy, it was not free from certain shortcomings which were recognised by the Macmillan Committee. In recent years, the instrument has lost a good deal of its potency in the western countries, and in India, it is blunt for all practical purposes.¹

Discount
rate.

The ineffectiveness of discount policy in India arises from the fact that the bank rate does not permeate the entire banking system. Before the advent of the Reserve Bank, the bank rate in India meant the rate at which the Imperial Bank was prepared to give demand loans against Government securities. The movements of this rate had more intimate relations with the loan operations and exchange policy of the Government and its balances with the Bank than with the requirements of trade and industry. The money-market was divided into two parts, viz., the European and the Indian (or the *Bazar*) parts. There was

¹ J. C. Sinha, *Indian Currency in the Last Decade*, p. 160.

no cohesion between these parts of the market and there were frequent differences between the bank rate and the *bazar* rates. The Reserve Bank no doubt supplied the central co-ordinating agency which was hitherto lacking, but matters have not improved. The Reserve Bank is still unable to control the money-market satisfactorily by raising or lowering its discount rate, for this operation does not bring about a similar rise or fall in the market rate. Indigenous banking is not materially affected by the Reserve Bank rate. If one remembers that 90 per cent. of Indian banking is in the hands of indigenous bankers, one can form an idea of the predominating influence of this form of banking.

Open-market operations.

The fourth traditional method of Central Bank control—the open-market policy—is usually regarded as supplementary to the bank rate policy. This method is usually employed in order to make effective a given bank rate policy or it may be employed by itself when changes in bank rate are considered undesirable. But even here it is debatable if the Indian securities market is sufficiently wide to enable the Reserve Bank to buy and sell securities without considering their repercussion on the public finances of the country. In the conditions obtaining at present, it will be difficult for the Reserve Bank to carry on operations on a drastic scale and coerce the money-market into submission.

Linking of indigenous bankers to the Reserve Bank.

Among the obstacles in the way of credit control, the existence of indigenous bankers outside the organised banking system is found to be one of the most serious. Hence the question of linking indigenous banking with the organised banking system is of the utmost importance. The Reserve Bank in its Statutory Report has stressed the difficulties of linking indigenous bankers directly to it and has stipulated certain conditions under which it will be prepared to admit their direct access to it. These conditions include the confinement of their business to banking proper by developing deposit business and shedding trading and other forms of non-banking business, the maintenance of proper books of account, the right of the Reserve Bank to inspect the accounts, the filing with the Bank of periodical statements prescribed for scheduled banks, and the opening of accounts with the Bank within five years of their registration as private bankers in its books.

The ultimate solution must lie in the development of an open bill market in which first-class bills are freely negotiated. An important characteristic of the Indian money-market is the scarcity of commercial bills of exchange which form a much smaller proportion of the assets of the banks here than in the West. In the absence of a proper bill market rediscounting facilities are very inadequate. If such a market could be developed, it would be possible for the Reserve Bank to extend its open-market operations to trade bills in addition to Government securities. This would give the indigenous bankers ultimately the close and direct relationship which they desire without subjecting them to undue restrictions and formalities.¹

Solution—
develop-
ment of
a bill
market.

But there are several obstacles to the development of a bill market, the greatest being the heavy stamp duty. The abolition of the stamp duty was recommended by the Hilton Young Commission as well as the Central Banking Enquiry Committee. It was high time that it was abolished. With the fall in the rate of interest the incidence of the duty has become a heavy burden. Definite steps should also be taken to induce the bankers to have greater recourse to commercial bills. A useful suggestion was made by Sir Basil Blackett during his term of office as Finance Member, namely, the drawing of export bills in rupees. The conditions in Sir Basil's time might not have been favourable to the development of this method of financing export trade, but the situation has changed considerably since then. Efforts should be made now to develop this method. The feasibility of introducing rupee bills to finance the Indian import trade should also be carefully considered.

The use of bills might be further extended if warehouses and godowns were established under proper management in different parts of India. Finance bills drawn at present by shroffs and merchants would then be replaced by genuine trade bills accompanied by documents, and these are sure to be preferred by the banks.²

With the increasing use of commercial bills and the development of an active discount market, with the willing co-operation

¹ *Statutory Report of the Reserve Bank of India (Agricultural Credit Supplement)*, 1937.

² *Statement of the Bengal National Chamber of Commerce; Indian Central Banking Enquiry Committee*, vol. ii, p. 502.



of the scheduled banks, with the Reserve Bank operating fully as a bankers' bank and not as a rival institution, with the indigenous bankers brought within the fold of organised banking, it will not be difficult for the Reserve Bank to achieve a unified control of currency and credit.

4. REGULATION OF BANKING

Absence
of any
regulation
before
1936.

Prior to the amendment of the Indian Companies Act in 1936, there was hardly any regulation of banking in India. Joint-stock banks in the country were registered under the Indian Companies Act of 1913 and were governed by its general regulations. It was only in a few matters that the Act distinguished between banks and other companies and contained half a dozen special regulations applicable to banks only. Banking institutions stood outside the purview of the Indian Companies Act. In the absence of any statutory control, banking activity was frequently directed into unwonted channels and abuses crept into banking practice with the result that the country was often littered with a crop of bank failures involving the utter ruin of thousands of depositors.

C. B.
Committee's
recommen-
dation for
special
Bank Act.

There was a widespread feeling for a long time in the country that there should be some legislative control over the operations of banking institutions. The point was made with great emphasis before the Indian Central Banking Enquiry Committee by a large number of witnesses. The Committee, though not in favour of elaborate banking regulations and restrictions, were of the opinion that the then existing provisions in the Companies Act governing banking companies were inadequate and recognised the desirability of placing on the Statute Book a special Bank Act for regulating certain aspects of banking activity. Accordingly, they made in their Report a number of suggestions for the regulation of banking in India. The licensing of banks to prevent overextension of banking, the prohibition of organisation of banking on the managing agency system, the prescription of a statutory minimum capital to ensure adequate capitalisation, the building up of a reserve fund equal to the paid-up capital, the prohibition of loans on the bank's own stock, and the protection of a bank from malicious



attacks by designing persons were some of their more important recommendations.¹

The 'Foreign Experts' who were invited by the Government to assist the deliberations of the Committee were not in favour of a special Bank Act. Neither did they accept in their entirety the recommendations of the Committee. The introduction of a special Banking Act would, in their opinion, hamper banking activities in the country and was calculated to do more harm than good. The objective of banking regulation, according to them, could be better attained by the amendment and amplification of the Indian Companies Act. But it may be pointed out that the method of regulation by means of a special Bank Act as proposed by the Banking Committee has been adopted in recent years in a large number of countries, including those of some of the 'Foreign Experts' themselves.²

The 'Foreign Experts' opposition to a Bank Act.

The Government of India, however, rejected the recommendation of the Banking Committee and, agreeing with the 'Foreign Experts', added a new chapter relating to Banking Companies in the Company Law when the Indian Companies Act was amended in 1936. The special provisions relating to banks in the amended Act comprised Sections 277 F to 277 N. (1) A banking company was defined as a company which carried on as its principal business the accepting of deposits of money on current account or otherwise subject to withdrawal by cheque, draft, or order.³ (2) The activities of all banking companies were restricted to ordinary banking business.⁴ (3) The future employment of managing agents for the management of a banking company was prohibited.⁵ (4) Adequate working capital before business is commenced was ensured by providing a statutory minimum capital of Rs. 50,000.⁶ (5) Provisions were made for a substantial reserve fund by requiring every banking company to transfer to the reserve fund not less than 20 per cent. of its annual declared profits before any dividend was declared until the reserve fund became equal to the paid-up capital.⁷

Indian Companies Amendment Act, 1936.

¹ *Indian Central Banking Enquiry Committee*, chap. xxv.

² The Danish Bank Act of 1930, the German Credit Act of 1934, the Belgian Bank Act of 1934, and the Argentine Banking Laws of 1935 are some important instances.

³ Section 277 F.

⁵ Section 277 H.

⁷ Section 277 K.

⁴ Section 277 G.

⁶ Section 277 I.



(6) Adequate cash reserve was provided for by requiring every banking company other than a scheduled bank of the Reserve Bank to maintain a cash reserve equivalent to $1\frac{1}{2}$ per cent. of its time liabilities and 5 per cent. of its demand liabilities.²

Inadequacy
of the pro-
visions in
the Act.

A careful study of the new provisions in the amended Companies Act would make it clear that they fell far short of the requirements. Not even the moderate recommendations of the Central Banking Enquiry Committee were incorporated. Some of the more urgent reforms were no doubt carried out but a number of important features of banking legislation elsewhere were missed in the Act. No attempt was made to develop the banking system on sound lines by providing for the taking out of licences for new banks. The duties and responsibilities of bank directors and managers were not specifically defined and limited. Restrictions were not imposed on loans on real estate which were a fruitful source of disaster for commercial banks here and elsewhere. In the circumstances, the provisions were meagre and inadequate, and their replacement by a comprehensive Bank Act on the lines of similar Acts in other advanced countries was urgently called for.

Good laws
do not
necessarily
produce
good
banking.

In conclusion, it must be pointed out that too much emphasis must not be put upon legislation as a means for ensuring a good banking system. As Mr. Hartley Withers pointed out long ago, it is good bankers but not good laws which produce good banking. The admittedly successful banking system of England did not owe its sound development to an elaborate banking law. It is also true that banking business is largely a matter of discretion, and hard and fast rules often fetter the discretion of bank directors and hamper banking activities. But at the same time it must be recognised that certain matters should be provided for by law which will ensure a minimum standard of efficiency and integrity in the conduct of the business of banks.

5. THE BANKING COMPANIES ACT, 1949

History.

The popular demand for a separate Banking Act gathered considerable force after the failure in 1938 of some South Indian banks. Sir James Taylor, the then Governor of the

² Section 277 L.



Reserve Bank of India, outlined his proposals for such an Act in a Memorandum to the Directors of the Central Board. These proposals formed the basis of the draft Bank Bill of 1939. But the outbreak of the Second World War postponed its consideration by the Indian Legislature. In November, 1944, a new banking bill was introduced in the Legislative Assembly for "consolidating and amending the law relating to banking companies in India." But the Bill lapsed even before the Select Committee had considered it. A fresh bill was introduced in March, 1946 and was referred to a select committee next month. But the political developments in the country culminating in the winning of its independence led to the withdrawal of the bill. A new bill was introduced in the Constituent Assembly on the 22nd March, 1948. This was the bill which, as amended by the Select Committee, was finally passed by Parliament and was assented to by the Governor General.¹ The Act repeals the whole of Part X A of the Indian Companies Act forming the Sections 277F-N and the other interim measures, viz., the Banking Companies (Restriction of Branches) Act, 1946, the Banking Companies (Inspection) Ordinance, 1946 and the Banking Companies (Control) Ordinances, 1948.

The main features of the Act are as follows:

Main features.

(1) Banking is defined as the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise (Sec. 5 (b)).

Definition.

(2) Prescription of minimum capital standards.—In the case of a banking company incorporated elsewhere than in a province of India, the aggregate value of its paid-up-capital and reserves shall not be less than 15 lakhs of rupees, and if it has a place or places of business in the city of Bombay or Calcutta or both, 20 lakhs of rupees. Such a banking company of non-Indian origin will be considered to have fulfilled the conditions laid down in the Act only when it has deposited with the Reserve Bank in cash or approved securities the minimum required. In the case of any other banking company, that is,

Minimum capital.

¹ The assent was given on the 10th March, 1949.

a company which is registered in India, the aggregate value of its paid up capital and reserves shall not be less than :

(a) five lakhs of rupees, if it has places of business in more than one province, and ten lakhs, if any such place of business is situated in Bombay city or Calcutta or both ;

(b) if it has all its places of business in one province, none of which is situated in Bombay city or Calcutta, one lakh of rupees in respect of its principal place of business *plus* ten thousand rupees in respect of each of its other places of business situated in the same district in which it has its principal place of business *plus* twenty-five thousand rupees in respect of each place of business situated elsewhere in the province otherwise than in the same district, but in no case more than an aggregate value of five lakhs of rupees ;

(c) if it has only one place of business, not more than fifty thousand rupees ;

(d) if it has all its places of business in one province one or more of which is or are situated in the city of Bombay or Calcutta, five lakhs of rupees, *plus* twenty-five thousand rupees in respect of each place of business outside Bombay city or Calcutta ; but in no case more than an aggregate value of ten lakhs of rupees.

One of the chief defects of the Indian Banking system is the weak and vulnerable capital structure of the vast majority of banks. Another defect is the tendency of small banks with low capital to open branches in large towns which have already sufficient banking facilities. These defects are sought to be remedied by these provisions.¹

Categories of
business.

(3) Delimitation of the forms of business in which banking companies may engage.—In the usual banking business are included, "underwriting, managing, participating in and carrying out of any issue of shares, stock, debentures of any company, corporation or association."² Such wide powers given to commercial banks to engage in mixed banking may land them in disaster. It was better to proceed on traditional lines in India in this respect.³

¹ Section 12.

² Section 6.

³ S. K. Basu, *Recent Banking Development*, p. 283.

(4) Prohibition of trading with a view to eliminating non-banking risks.—No banking company shall directly or indirectly deal in the buying or selling or bartering of goods, except in connection with the realisation of security given to or held by it, or engage in any trade or buy or sell or barter goods for others. Prohibition of business.

(5) No company shall carry on banking business in any province of India unless it holds a licence granted by the Reserve Bank for this purpose. Before granting any such licence the Reserve Bank may require to be satisfied that the company is in a position to pay its depositors in full as their claims accrue and that the affairs of the company are not being conducted in a manner detrimental to the interests of the depositors. The Reserve Bank may cancel the licence if the conditions cease to be fulfilled. Licensing.

(6) The Reserve Bank, at any time, may, and on being directed to do so by the Central Government, shall cause an inspection to be made of any banking company and its books and accounts. On obtaining a report from the Reserve Bank, the Central Government may, after giving an opportunity to the banking company to make a representation, prohibit it from receiving fresh deposits or direct the Reserve Bank to apply for its winding-up. Banking companies have to submit their monthly returns to the Reserve Bank which may also call for information every half-year regarding the classification of advances and investments among trade, industry and commerce. Inspection and control.

(7) Non-scheduled banks have been required to maintain a cash reserve in cash with itself or in the form of a balance with the Reserve Bank a sum equivalent to 2 per cent. of their time liabilities and 5 per cent. of their demand liabilities and have thus been brought into line with the scheduled banks in this respect. Apart from this cash reserve, both scheduled and non-scheduled banks shall maintain in cash, gold or approved securities an amount not less than 20 per cent of their time and demand liabilities. Such a statutory provision of a ratio between liquid assets (including or excluding cash) and deposits apart from the ratio of cash to deposits is to be witnessed in various countries of the world. Prescription of a cash as well as a liquidity ratio.



Comment.

The Reserve Bank may determine the policy in relation to advances to be followed by banking companies, if it considers it expedient in the public interest. It may give directions to banking companies as to the purposes for which advances may or may not be made, the margins to be maintained in respect of secured advances and the rates of interest to be charged on advances. The Reserve Bank has also been empowered to include a bank within the second schedule or de-schedule it. Without its previous sanction no amalgamation can take place. It may also caution banking companies against entering into any particular transaction and generally give advice to them.

At the same time, the Reserve Bank has been empowered to give assistance to any banking company by means of the grant to it of a loan or advance. The Reserve Bank of India Act, 1934 has also been amended in such a manner that loans or advances may be granted by it to banking companies not only against the securities hitherto considered to be eligible but also against such other forms of security as the Bank may consider sufficient.

The duties and responsibilities thrown upon the Bank are wide, varied and formidable. Indeed the burden a single institution is being called upon to bear in policy-making and day-to-day administration of the country's banking system is colossal. It is feared that its experience (of only fifteen years) in this difficult field is much too short and inadequate.¹ But a redeeming feature is that the Bank will henceforth be able to extend its assistance to both scheduled and non-scheduled banks in their hour of distress and prevent a recurrence of the crisis that overtook banks in Bengal in recent years. It is calculated in this way to improve the liquidity of the Indian banks.

The Banking Companies (Amendment) Act, 1950.

The Banking Companies (Amendment) Act, 1950 was subsequently passed. The main provisions of this Amending Act related to the procedure for amalgamation of banking companies. A new Section (44A) was inserted which provided that no banking company should be amalgamated with another banking company unless a scheme containing the terms of such amalgamation had been placed in draft before the share-holders

¹ *The Eastern Economist*, February 18, 1949.



of each of these banking companies concerned separately and approved by a resolution representing two-thirds in value of the shareholders of each of the said companies present either in person or by proxy at a meeting called for the purpose. If the scheme of amalgamation were approved by the requisite number of shareholders, it would be submitted for sanction to the Reserve Bank. If the Reserve Bank gave its sanction it would be binding on the banking companies concerned and also on all the shareholders.¹

This amendment has facilitated the recent amalgamation of four well-known banks in Bengal.

6. THE RUPEE-STERLING RATIO

The question of the rupee-sterling ratio has been the subject-matter of widespread controversy in the country for a long time. The issue is of very great importance, for upon it hangs the fate of the agriculturists, the industrialists, the Government, and the public. A careful analysis is required for rejecting or accepting a particular ratio.

The Hilton Young Commission recommended that the rupee should be stabilised in relation to gold at a rate corresponding to an exchange rate of 1s. 6d. for the rupee. At the rate they believed that prices in India had already attained a substantial measure of adjustment with those in the world at large and that any change in it would mean a difficult period of adjustment and widespread economic disturbance. But it will be recalled that even at that time there was a cleavage of opinion among the members of the Commission as to what should be the proper ratio. In his dissenting Minute, Sir Purshottamdas Thakurdas vigorously advocated the case for stabilisation at the old pre-war ratio of 1s. 4d. and accused the Government of having thrown away the opportunity of stabilising at this rate in September and October, 1924. The controversy between 1s. 6d. and 1s. 4d. ran a long course and many arguments were adduced to support each point of view. The advocates of a lower ratio for the rupee argued that India was predominantly an agricultural, and essentially an exporting, country. The

Hilton
Young
Commis-
sion's re-
commenda-
tion of
1s. 6d.
ratio.

¹ *Reserve Bank of India Bulletin*, April, 1950, pp. 251-53.



The Currency Act of 1927.

lower ratio would give a bonus of $12\frac{1}{2}$ per cent. to the agriculturists. But, on the other side, it was pointed out that agricultural commodities changed so many hands before exportation that any advantage from a depreciating exchange would be intercepted by the middlemen and very little of it would reach the prime producers. The lower ratio would further unbalance the central as well as the provincial budgets. The Government accepted the recommendations of the Hilton Young Commission and linked the rupee to 1s. 6d. By the Currency Act of 1927 was established a gold bullion-cum-sterling exchange standard in India. The Government had the option of giving sterling and not gold, and hence the standard thus established was in reality a Sterling Exchange Standard although in practice it worked as a Gold Exchange Standard until 26th September, 1931, during which period sterling was at par with gold. The Government had hoped to silence all controversy by this decision, but the voices of protest did not die down.

In the meantime, the world was caught in the grip of a depression of unparalleled intensity. The full brunt of the world-wide depression began to be felt in India after June, 1930, and the year 1931-32 proved to be a critical one in the history of Indian currency. There was a collapse of prices, and trade began to decline rapidly. The financial position of the Government became embarrassing and the exchange position was quite serious. The rupee began to fall rapidly to the lower gold-point, and even went below it. Sales of Reverse Councils by the Government to keep up the exchange-rate proved futile, and throughout the months of August and September, 1931, the rupee-sterling rate remained just below the gold export-point.

Great Britain goes off gold and linking of rupee to sterling at 1s. 6d.

On the 21st September, 1931, Great Britain abandoned the Gold Standard. On the 24th September, the Government of India announced its decision to link the rupee to sterling at the 1s. 6d. rate. Thus India again passed on to the Sterling Exchange Standard which had been condemned as most unsuitable for India by the Babington-Smith Committee as well as the Hilton Young Commission.

Strong criticism of Government policy.

The step taken by the Government raised a storm of protest in the country. One view that was widely canvassed at the time was that the rupee should have been left to fluctuate freely and



allowed "to find its own level". It was stated that by the sterling-link the rupee would follow exactly the course of sterling in its relation to gold, but what might suit England in this respect was not necessarily the best course for India. She must have perfect freedom, it was contended, to regulate the currency in her own interests and as directed by her own position and requirements. The reasons advanced by the Hilton Young Commission in rejecting the Sterling Exchange Standard for India in 1926 were applied to support this view. Another charge that was levelled against the sterling-link was that it would introduce 'Imperial Preference' by the backdoor. A large section of Indian economists and businessmen, though not advocating a 'free' rupee, was definitely of the opinion that the rupee was overvalued at the rate of 1s. 6d. The gold exports, the declining merchandise balances, and the persistent fall in prices constituted, according to them, strong evidence of the overvaluation of the rupee. There arose an insistent demand for immediate devaluation.

But the Government adhered to their decision. It was pointed out on their behalf that they had nearly £32 millions of sterling obligations to meet every year and a 'free' or devalued rupee would be a source of great embarrassment in the framing of their budgets. Of all the alternatives open to them in 1931, it was stated, they had chosen the best. So far as the gold export, the reduced merchandise balances, and the declining prices were concerned, the exchange-rate had very little to do with them; they were due to other causes.

Defence of
Government
policy.

With the inauguration of the Reserve Bank in 1935 an element of strength was imparted to Indian finance. The exchange position was free from any serious difficulty and things moved fairly smoothly for some time. But troubles began to arise early in 1938. The balance of trade in merchandise in favour of India and Burma declined from Rs. 66.32 crores in 1937 to Rs. 39.80 crores in 1938. During the first three months of 1938 the situation was particularly bad. The exports of precious metals also declined considerably in this period. The cumulative effect of this decline in the exports of merchandise and of gold soon made itself felt on the course of the rupee-sterling exchange. On the 13th of April, the Reserve Bank for

Decline of
the export
trade and
the sagging
of the rupee
in 1937.

the first time after several years accepted tenders of sterling to the amount of £10,000 at 1s. 6 $\frac{3}{4}$ d. instead of at 1s. 6 $\frac{1}{8}$ d. This was immediately followed by a decline in the market rates and though the Reserve Bank subsequently suspended purchases by tender altogether the rates continued to fall and reached the statutory lower point of 1s. 5 $\frac{1}{4}$ d. in the first week of June.¹ In their efforts to maintain the rate of exchange the Reserve Bank was obliged to utilise freely the sterling resources at its disposal. The depletion of the sterling assets of the Issue Department amounted to more than 19 crores of rupees during the period from March 16 to December 18, 1938.

Steps
taken by
Government
to maintain
exchange.

There was widespread resentment in the country against this Government policy which was leading to the depletion of the foreign balances and even to contraction of currency. It was pointed out that the notes in circulation which stood on 30th April, 1937, at Rs. 192.6 crores came down by 1st July, 1938, to Rs. 177.31 crores. The rupee coin at the same time was returning to the Reserve Bank at the rate of more than 5 crores a year. This was regarded as an evidence of a deliberate policy of contraction which the Government were pursuing in order to maintain what had always been described by them as a 'sound' rupee. The commercial community were considerably alarmed, for a continuance of this process could not but have a deflationary effect with all the attendant evils of monetary stringency, falling prices, and commercial and economic maladjustment.

Demand for
a revision of
the exchange
ratio.

A revision of the exchange ratio was urgently demanded by a large section of Indian economists and publicists. The question of the ratio came to engage the attention of even the Working Committee of the Congress which passed a Resolution in December, 1938, urging upon the Governor-General in Council the necessity of taking immediate steps to lower this rate to 1s. 4d. But on the 17th December, 1938, the Government of India issued a communique on the Congress resolution in which they declined to take any step to lower the present exchange value of the rupee.

Government
commu-
nique.

There was some truth in the contention of the Government that the devaluation of the rupee would seriously weaken their

¹ *Report of the Central Board of Directors, Reserve Bank of India, 1939.*



budgetary position. The sterling obligations, apart from the cost of stores, amounted to nearly £35 million, and in the event of devaluation, these transactions alone would add a considerable sum to Government expenditure. But the reply to this was that devaluation would ultimately exercise an expansionary effect on both exports and imports and on the whole internal economy of the country. In the circumstances, the increasing field of the different sources of taxation would more than make up for the loss sustained by an exchange premium on Indian foreign obligations.¹ The Government and their apologists entirely ignored the fact that devaluation would be an effective instrument for fighting the economic depression. By devaluing the rupee, an inflationary effect could be brought about which would whip up the prices, quicken trade and commerce, and accelerate the pace of industrialisation. It would be no mean achievement if the devaluation of the rupee could at least prevent export prices in rupees from falling.

Government policy can not be defended.

The broad fact remained that there was a definite tendency for the Indian export trade to decline. The Government in their communique made much capital of the balance of trade growing in favour of India since June, 1938. But to regard the slight improvement in the active balance of trade as signifying a real upturn of the trade cycle was nothing but short-sighted complacency on their part. There was in fact a set-back in October, 1938. Moreover, they completely ignored the general trend of the last few years. The export trade of India consisted of 21 main items, among which only 4 or 5 figured prominently. Her exports were being challenged. It would be impossible for the Government to keep up the high rate of exchange without a development of India's export trade. Instead of frittering away the sterling resources of the Reserve Bank, they should have made some effort to stimulate the exports of the country by concluding bilateral treaties and by improving the quality of India's agricultural goods.

From the foregoing discussion it is surprising how the current ratio of rupee to sterling could be regarded as sound in authoritative circles. A system which had to be maintained with great difficulty and by the adoption of measures injurious to the

¹ B. N. Ganguly, *Whither Rupee?*, p. 148.



interests of the country could hardly be called a rational one. Even Sir Basil Blackett, at one time Finance Member to the Government of India, admitted the "risk" of "tying the rupee to the chariot wheels" of the Bank of England.

7. GOLD EXPORTS

India—
always an
importer
of gold in
the past.

Since September 1931, when Great Britain abandoned the Gold Standard, a large quantity of gold left India for other countries. This export of gold was an abnormal feature in Indian economy. She had generally been an importer of precious metals in the past. The net imports of gold during the 31 years, 1900-01 to 1930-31, were 547·76 crores.¹ The fact that she was an exporter occasionally in the past was made much of by officials who expressed their surprise that it had not excited any comment in the Press at the time. For instance, in a pamphlet issued by the Publicity Department of the Bengal Government, it was shown that the average export of gold during the period 1919-20 to 1923-24 had amounted to Rs. 10·25 crores; in 1920-21 it was as large as 21·46 crores, and in 1921-22, 16·48 crores. But these were gross figures. The fact was that except during only one of these years, namely, 1921-22, there was a net export and all the other years were years of heavy net imports of gold. In the year 1921-22, the net export was to the extent of only Rs. 2·79 crores.² But this export was insignificant compared with the exports during the five years 1931-32 to 1936-37. These amounted to 35,404,000 ounces valued at Rs. 298·29 crores, giving an annual average of 5,901,000 ounces valued at Rs. 49·71 crores. They formed more than a quarter of the total annual production of gold in the world excluding Soviet Russia. The great bulk of the Indian export obviously came out of the quantity previously imported into the country which had been lying hoarded, partly in the form of bullion, but mainly in the form of ornaments. In the pamphlet already referred to, the Government sought to minimise the significance of the net export of gold by arguing that it was only a fraction of the total imports. But the percentage increased year by year

Amount
of gold
exports
since
1931-32.

¹ *Report of the Reserve Bank of India, 1936-37, p. 12.*

² *Report of the Controller of Currency, 1921-22.* There was also a net export of gold in 1915-16 amounting to Rs. 1·15 crores.



and no substantial part of this vast accumulation had ever left the country until those years.

Various reasons were assigned for this persistent exodus of gold from India. The real reason of the gold export was that the rupee price of gold did not rise quite as much as was warranted by the depreciation of sterling below gold. India was a cheap market for buying the metal and England a dear market for its sale, which enabled exporters to reap a windfall profit. This was why gold was exported. So long as the rupee was linked to gold, it was not usually profitable to export it. But in September, 1931, the situation had completely changed. The rise in the rupee price of gold did not come up immediately to the full extent of the depreciation of sterling in terms of gold, and hence the export of the metal afforded a profit to the Indian bullion dealers.¹

Real cause of the gold exports.

But whatever the reason might have been, these gold exports on such an unprecedented scale considerably alarmed public opinion. The policy of the Government in allowing these gold exports to continue—the 'let alone' policy as it was called—came to be subjected to a fire of criticism in the Press and on the platform. The export of gold was severely condemned as being injurious to the best interests of the country. It was contended that the gold that was being exported was 'distress' gold and that the people were living on their capital, a process which could not continue indefinitely. It was further argued that the exports of gold meant the wastage of India's gold resources and a drain on the savings of the people accumulated for several generations. While all other countries were making most strenuous efforts to acquire gold, India was wasting her gold resources. It was generally believed that the world would return to some form of a Gold Standard although the old parities might not be adopted in many cases. A Gold Standard, owing to a variety of reasons, would be more suitable to India in her peculiar conditions than any other managed standard. If India were to adopt the Gold Standard in the near future, it would most probably be a Gold Bullion Standard. This, as the Hilton Young Commission had pointed out, called for a large reserve

'Let-alone' policy of Government and its criticism.

A Gold Standard for India in the future.

¹ J. C. Sinha, *Indian Currency Problems in the Last Decade*, p. 118.



of gold. This requirement greatly increased, partly because of the depreciation of sterling assets and partly because of the heavy fall in the price of silver. Moreover, India was a debtor country and the bulk of her exports consisted of only a few commodities subject to keen foreign competition. Hence she would require a fairly large gold reserve to guard against a possible external drain.¹ The uncontrolled gold export of such magnitude was likely to make it impossible for her to attain the goal of the Gold Standard in the near future. There was a strong feeling in the country for the restriction of this gold exodus, and as early as 1932, the Federation of Indian Chambers of Commerce at their annual meeting passed resolutions urging the Government to put an immediate embargo on the exports of gold and to purchase all gold offered at a price fixed on the basis of the day-to-day ruling rate.

Public
demand
for restric-
tion of
gold
export.

Defence
of Govern-
ment
policy.

On the other hand, the Government and their supporters found in these gold exports no indication that India was being driven by distress to part with her last reserves and hence no cause for regret or or alarm.² These gold exports, if studied in their proper setting, stood, according to them, on an entirely different footing from the gold outflows from currency reserves. It was an outflow of gold from the Bank of England which hastened her decision to go off gold. But in the case of India it was the breaking away from gold that was the cause of her enormous gold exports. If an analogy was wanted, they argued, this might be found in the exports of the metal from mining countries like South Africa. Just as a rise in the value of gold extended the margin of profitable mining, so a rise in the price of gold opened the Indian hoards in the latter half of 1931. Gold exports continued and increased in amount as the price of the metal rose, tempting new sellers in the markets. It seemed to them that India had done well in converting her ready stock of gold into interest-bearing assets. As a result of larger production and of dishoarding from China and India, the stock of monetary gold was fast increasing and in the future the value of gold was likely to fall rather than rise. If India wanted back her gold then, they said, it would not be difficult

Gold out-
flow not
from
currency
reserves
but from
hoards.

¹ H. C. Sinha, *Indian Journal of Economics*, April, 1933.

² *Vide* Sir James Grigg's Budget Speech, 1935.



for her to get it back much more cheaply. Further, in their view, the gold export had certain great advantages. "It stemmed the headlong fall of commodity prices in India", and thus benefited the business community. It maintained the exchange and solved the remittance problem of the Government. It also caused to some extent a rise in the price of Government securities and thus by contributing to the fall in the long-term rate of interest paved the way to recovery.

Advantages
of gold
exports.

Although there was some truth in the view held by the Government and their supporters, it could hardly be denied that gold, though a commodity, occupies a much more important position in the economic world than other commodities. The expedient of gold export was found by the Government to be very useful in maintaining the rupee-sterling exchange, but they seemed to have forgotten that this expedient could not be available for all time to come.¹ Instead of standing idly by when the country was being denuded of its gold, they should have taken definite steps to check this outflow and to develop the Indian export trade. A duty on gold export at a moderate rate would have been justified if the proceeds of the duty had been devoted to the adoption of measures tending to restore India's favourable balance of trade.

Con-
clusion.

8. DEVALUATION

The Finance Minister in his Budget speech of February 28, 1949 appeared for the first time to be seriously concerned about India's balance of payments position *vis-a-vis* the dollar and hard currency areas. India's net deficit in her current transaction with these areas amounted to Rs. 4.8 crores in 1946, Rs. 85.8 crores in 1947 and Rs. 49.6 crores in 1948.² Although the deficit in this respect was smaller in 1948 than in 1947, India was faced with a serious problem of international payments owing to the definite limits imposed by the U. K. on the convertibility of sterling.

It was on the night of September 18, 1949 that Sir Stafford Cripps made the historic announcement over the radio, of the

¹ P. J. Thomas, in the *Economic Journal*, June, 1938.

² *Reserve Bank of India Bulletin*, July, 1949.

devaluation of the pound sterling. It was a signal for devaluation of their currencies by other countries. The Government of India's announcement that the rupee had been devalued in terms of gold (or U. S. dollar) to the same extent as the British sterling followed closely on the heels of the Cripps broadcast. The par value of the rupee in terms of gold was reduced from 0.268601 grams of pure gold to 0.186210 grams. In terms of U. S. dollars it meant a reduction from 3.30852 rupees to 4.76190 rupees. The exchange rate between the rupee and the pound remained unchanged at 1s. 6d. a rupee.

Finance
Ministry
Com-
munique.

A Finance Ministry Communique, dated September 19, 1949, explained that the Government of India had hitherto felt that in view of the general conditions of Indian economy, devaluation was not likely to solve India's problem of dollar shortage and her aggregate export earnings were not likely to increase as a result of export price reduction through devaluation because of the inelastic nature of the supply of her exports. But the decision of the United Kingdom to devalue sterling followed by similar devaluation by other countries created a situation in which it was impossible for India to avoid similar action without detriment to her economy. The bulk of India's trade was carried on with sterling area countries, and the price level in India being already high, a failure to devalue the rupee would have seriously undermined India's competitive position and endangered the markets for most of her exports. "There was thus no alternative for India than to follow the other sterling area countries and devalue the rupee as a defensive measure." India's Prime Minister and Finance Minister assured the people that internal prices would not rise and the cost of living would not be affected as a result of devaluation.

The Finance Minister contended that the maintenance of the rupee at the old parity, when sterling was depreciated, would have seriously impaired the competitive position of Indian exports, particularly those of cotton piece-goods, in the overseas markets. He also in his defence of devaluation stressed the stimulus that it would impart to the Indian export trade to the dollar areas. The Finance Minister, while stressing the export side of the problem, forgot to mention the effect of devaluation on India's imports of essential commodities, capital goods, and

foreign loans urgently needed by India to give effect to her reconstruction programme. The International Monetary Fund sanctioned the alteration in the par value of the British and Indian currencies on the ground that the countries were suffering from a fundamental disequilibrium for which the Fund must approve the proposed change.

But the whole situation became complicated and confused after Pakistan's refusal to devalue her rupee. The Pakistan Government argued that Pakistan was not suffering from a fundamental disequilibrium in her balance of payments, that the demand for most of her exports was inelastic and hence incapable of expansion by devaluation and that her budgets were balanced since Partition.¹

India ought to have considered the possible repercussions in case Pakistan refused to devalue and should have consulted Pakistan before deciding upon a policy of devaluation. Merely informing Pakistan did not amount to consultation in terms of the Indo-Pakistan Financial Agreement.

The case against India's devaluation may be summarised² thus:

(1) India has been suffering from a structural disequilibrium and devaluation cannot be regarded as a remedy for such disequilibrium. Case against devaluation.

(2) The demand and supply elasticities of our export commodities have been of such a nature that devaluation would hardly be able to increase the quantum of our exports and with that the amount of our earnings of foreign exchange, particularly dollars.

(3) Pakistan's behaviour has nullified almost entirely the exchange advantage sought to be obtained by devaluation.

(4) Valuable raw materials and essential manufactures would be diverted from the home market much to the detriment of internal industrial and consuming interests and domestic prices would be raised.

(5) Cost of imports of food stuffs, raw materials and capital equipment would increase and the cost of living would go up.

¹ The *Statesman*, September 23, 1949.

² S. K. Basu, *Devaluation and the Dollar Problem*, pp. 52-53.



(6) There would be a further spurt of inflation and Government's ability to control it, judged by past experience, cannot be depended upon.

(7) The value of the sums received as loan from dollar countries would be much less, while repayment of loans obtained by India from the International Bank and the Fund and of interest payments thereon would have to be made at much higher rates.

(8) Pakistan would be enabled to repay her share of the debt to India amounting to nearly Rs. 300 crores, payments for which will commence from 15th August, 1952 at the new favourable rate of exchange of Rs. 69.50 Pakistani Rupees for 100 Indian Rupees.

The Finance Minister himself did not appear to have been fully convinced of the beneficial effects of devaluation. On October 5, 1949 he frankly stated in Parliament that he had to act "not on conviction born of logic necessarily, but so to speak, by the compulsion of events".¹ He also admitted that, as a sequel to devaluation, there was not much likelihood of the increase in demand in the U.S.A. or an increase in supply in India in regard to two principal commodities of export like jute goods and tea.

It has been rightly suggested that in the peculiar circumstances of India, selective controls in the shape of import restrictions, quotas, tariffs, exchange control, etc., would have been more conducive to India's interests.²

Effects of
devaluation.

Since the devaluation of the rupee in September, 1949, there has been some increase in exports, particularly to the dollar and hard currency areas.³ With September, 1949 as the base, the

¹ *The Statesman*, October 6, 1949.

² *Devaluation and the Dollar Problem*, p. 54.

³ *Hard and Soft Currency areas*:

For purposes of import into and export from India, the list of hard and soft currency countries has been revised and is now as follows:—

A. *Dollar Area*:

U.S.A. and any territory under sovereignty of the U.S.A., Canada (including Newfoundland).

Other American Account Countries, consisting of Philippine Islands, Bolivia, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Salvador and Venezuela.

Liberia.

B. *Hard Currency Areas*:

Argentina, Switzerland and Japan.



index of our exports rose to 168, 208 and 111 respectively for dollar, hard currency and soft currency areas in February, 1950. The value of exports in terms of rupees rose from Rs. 6,75 lakhs, Rs. 7,83 lakhs and Rs. 25,61 lakhs to Rs. 11,33 lakhs, Rs. 16,32 lakhs and Rs. 28,43 lakhs respectively for these three areas, during the same period.¹ Sir Chintaman Deshmukh recently stated in Parliament that India's balance of trade improved by Rs. 172 crores during the nine months following devaluation from October, 1949 to June, 1950. Official circles consider that devaluation may be regarded as the main factor in the improvement of exports.² Thus the Government of India contend that their devaluation policy has been justified by developments in export trade.

But the following factors have to be taken into consideration in this connection. In the first place, a considerable part of the post-devaluation improvement in export trade has been due to the fact that the demand from overseas countries had slowed down in the period immediately before devaluation, and the resulting contraction of exports has been responsible for the larger demand and increased exports after devaluation. In the second place, the improvement in India's trade balance has been largely due to the sharp decline in imports due to stringent restrictions, particularly in the period immediately before and after devaluation. Total imports for the period of 9 months ending in June, 1950 amounted to Rs. 371 crores as against Rs. 469 crores for the same period in the previous year. As has been rightly observed, India's favourable balance of trade with the U.S.A. in recent months is due more to the pricing out of American goods from the Indian market rather than to increase in our exports.³ Even Sir C. D. Deshmukh admitted that only Rs. 74 crores out of the Rs. 172 crores of the improve-

Conflicting
opinions.

C. Medium Currency Areas:

Portugal and her possessions (excluding Portuguese India).

D. Soft Currency Areas:

All other countries, except Pakistan and the Union of South Africa.

—*Indian Trade Bulletin*.

¹ *Fortnightly Economic Review*, May 1, 1950.

² Statement by Sir C. D. Deshmukh in Parliament, August 3, 1950.

³ *The Statesman*, August 4, 1950.

⁴ *The Statesman*, July 22, 1950 has given an interesting graph in this respect.



ment in the balance of trade could be attributed to increase in exports. During the last three months of April, May and June, 1950 it is found that the trend towards a favourable balance of trade witnessed during the first four months of 1950 has not been maintained and a deficit has occurred.¹ In the third place the increase in exports, as admitted by Sir C. D. Deshmukh, has been partly due to the vigorous export drive on the part of the Government. In the fourth place, the increase in exports that has taken place relates chiefly to cotton textiles and tea with regard to soft currency areas where devaluation has certainly not provided the stimulus. Finally, the increase in the value of exports in terms of rupees about which much has been said is misleading. What is really significant is an increase in foreign exchange, particularly dollar and hard currency, earnings. It is obvious that even if the dollar amount remains unchanged, there will be an increase in rupee value due to its depreciation. The demand for some of India's exports is clearly inelastic and has become more so in the context of recent developments in international politics. There has been a considerable increase in the U.S.A.'s demand for strategic Indian minerals for stock-piling purposes. The devaluation of the rupee has now stood in the way of India's increasing her earnings of dollars.

Further, as a result of devaluation, cost of living has increased. Capital equipment and borrowing from dollar areas have become much dearer and are impeding India's programme of economic reconstruction and development.

✓ 9. RURAL BANKING

Rural
Banking
Enquiry
Committee.

As the bulk of India's population lives in villages, rural finance is an essential need for increasing the productive capacity of the people engaged in agriculture as well as in small-scale industries. To consider this subject a Committee was appointed in November, 1949. The Committee was requested to consider: (a) the measures which can be taken immediately for extending banking facilities to rural areas; (b) the existing arrangements for cash work at Government treasuries and sub-treasuries,

¹ The Statesman, August 3, 1950.



including those managed by the Imperial Bank ; and (c) the future arrangements for such work in the provinces as well in the States whose financial integration took effect from 1st April 1950.

The Committee found that there had been a shift in incomes from the urban to the rural sector and they arrived at the following conclusions: (i) compulsory scaling down and adjustment of rural debts need not be proceeded with under present conditions ; (ii) in implementing money-lending and other agrarian legislation, Government should take note of the pace at which satisfactory alternative machinery could be established and the effects of such legislation on credit institutions ; (iii) for long-term credit, separate land mortgage banks, primary and central, should be established in each State ; the establishment of a Central Agricultural Credit Corporation for the country as a whole was considered inopportune at present ; (iv) for short and medium-term credit, each region should be able to raise adequate finance from the public and not depend upon the State for funds. Emphasis should be laid on building a sound structure of primary co-operative societies, the super-structure being raised as far as possible on the basis of the existing institutions.

Decisions.

As regards the attitude of the State to the question of expansion, the Committee thought the Government should not assume an entirely passive attitude. The Committee recommended that the number of post-offices, doing savings bank work in the rural areas, should be increased and steps should be taken to improve their working. The Committee also recommended additional facilities to co-operative institutions in the shape of (a) remittance of funds at concessional rates through post offices, (b) relaxation in the case of co-operative societies of post-office saving bank rules regarding maximum deposits to be held and the number of withdrawals per week, and (c) the approval of co-operative banks and societies as authorised agents for the sale of National Savings Certificates. The Committee suggested that greater use should be made by co-operative banks of the provision for financial assistance at concessional rates from the Reserve Bank and that there should be a closer liason between them to facilitate this. To provide stimuli for the expansion of sound banks, the Committee pro-

Attitude of States.

Recommendations.

posed: (a) cheaper and freer remittance facilities from the Reserve Bank and its agents, (b) better facilities for the conversion and exchange of notes and coin, (c) facilities for banks to keep their iron safes and chests for safe custody in the strong rooms of treasuries and sub-treasuries and (d) the establishment of a Warehousing Development Board, with funds contributed by the Central and State Governments and the Reserve Bank, for developing warehousing through loans and subsidies to banks and co-operative institutions. It is suggested that banking companies should be permitted to form subsidiaries for the purpose of constructing and running warehouses and that certificates issued by them should be recognised, as an experimental measure, as valid warehouse receipts by the Reserve Bank for the purposes of Section 17 (4) (d) of the Reserve Bank of India Act.

Certain
proposals
disfavoured.

The introduction of deposit insurance was not considered opportune and proposals for cash subsidies or interest-free deposits to banks to encourage their expansion were rejected both on grounds of principle and of administrative difficulties. The use of mobile banks on an extensive scale was not considered feasible.¹

¹ *Reserve Bank of India Bulletin*—September 1950.

CHAPTER XXIV

INTERNATIONAL MONETARY PROBLEMS

1. INTERNATIONAL MONETARY FUND

It was by virtue of an Ordinance promulgated by the Viceroy on December 24, 1945 that India had ratified the Bretton Woods Agreement and had become an original member of the International Monetary Fund and the International Bank for Reconstruction and Development. In October, 1946 the Central Legislature approved India's continued membership of the Fund and the Bank. The amount of India's subscription to the Fund, which was also her quota,¹ namely, 400 million dollars, was to be paid by March 1, 1947. This had to be paid partly in gold and partly in Indian "currency", *i.e.*, in rupees and non-interest-bearing, non-negotiable promissory notes convertible on demand into rupees. Under the Rules of the Fund, the gold subscription had either to be 25 per cent. of a country's quota or 10 per cent. of its net official holdings of gold and U.S. dollars whichever was less. As 10 per cent. of India's gold and dollar holdings was the lower figure, gold of this value was transferred to the Fund. Of the subscription to be paid in "currency", a certain amount was credited to the Fund's account in the books of the Reserve Bank of India and the balance was paid in the form of promissory notes of the type mentioned above.² According to the Annual Report of the International Monetary Fund for the fiscal year, 1947, India's subscription payments were \$40,000 in U.S. dollars, 785,327,246 fine ounces in gold of which the dollar equivalent was \$27,486,453.61 and Rs. 1,232,336,77.50 in rupees for which the dollar equivalent was \$372,473,546.39.³

India an original member of I.M.F.

¹ It was decided at the Second Annual General Meeting of the Board of Governors of the Fund that the "Quota" of pre-partition India in the Fund should continue to be the quota of India.

² *Report on Currency and Finance*, Reserve Bank of India, 1946-47, pp. 34-35, 1947-48, pp. 40-42.

³ *Annual Report of the International Monetary Fund*, April 30, 1949, p. 98.



Purchase of
dollars.

India, being one of the five largest quota holders (Russia having chosen to stand aloof), appointed an Executive Director on the Fund. She has 4,250 votes which amount to 4.82 per cent. of the total. The greatest advantage that India has derived from the membership of the Fund is the assistance she has obtained from it to satisfy her need for dollars. Partly on account of imports of capital goods and foodstuffs and partly on the invisible trade account, India was running a large deficit with the dollar area. She has been able to purchase dollars from the Fund from time to time to meet a portion of this deficit. It was in March, 1948 that she applied to the Fund for the first time for U.S. dollars. The Fund assented to her purchase of \$28 million. Ever since she has been making continuous purchases of dollars from the Fund. She bought \$100 million in 1949, which meant that she exhausted her limit of credit for the year. For under the rules of the Fund, no member country is permitted to draw on its limit of credit beyond 25 per cent. of its quota during any one year.

Mission to
India.

The rate at which India has been using up her limit of credit with the Fund has been exercising the minds not only of the Government of India but also of the authorities of the Fund. A mission of the Fund visited India to study the different aspects of India's economy as well as the general economic structure as a whole and had satisfactory talks with the Central Government in New Delhi on the subject. While it has been recognised that India's case is peculiar, due to dislocation of her economy on account of "Partition" and that her adverse balance of payments is being principally caused by heavy food imports, it has been emphasised by Mr. Parsons, leader of the Fund mission, that the Fund's function is to extend its assistance to a country during the period in which it was taking steps to correct a disequilibrium in its balance of payments but not for meeting regular deficits on trade account.¹

The Reserve
Bank of
India and
I.M.F.

India's membership of the Fund has not only brought advantages but has also imposed upon her a number of obligations. Such obligations have called for consequential amendments to the Reserve Bank of India Act, 1934.

¹ The *Statesman*, April 15, 1949.



One of the principal objectives of the Fund is the establishment of multilateralism in international trade. The laws and practices of the Reserve Bank have to be suitably amended so that the Bank can maintain multilaterality of exchange transactions between the rupee and the currencies of other member countries. The holdings of foreign exchange reserve in terms of sterling only, the purchase and sale of sterling only, the fixation of the external value of the rupee in terms of sterling only—all these provisions in the Act of 1934 stood in the way of multilaterality and were clearly discriminatory in favour of sterling. Sections 17, 40, 41 and 33 in particular called for suitable amendments.

Reserve Bank provisions amended.

Sections 40 and 41 made sterling the sole determinant of the external value of the Indian rupee. Under its Articles of Agreement, member countries had to express the par values of their currencies in terms of gold; and the rates which such par values bore to each other were to determine the exchange rates. When India was called upon to declare the par value of the rupee, the sections had to be repealed and replaced by a new section by the Reserve Bank of India (Second Amendment) Act, 1947. Under the amendments the Bank was put under an obligation to buy and sell, not sterling simply, but foreign exchange at rates determined by the Central Government. Thus the rupee was delinked from sterling and emerged as an independent currency.¹ It will henceforth be linked to currencies of all countries which are members of the Fund, instead of being tied to the chariot wheels of the sterling.

Rupee de-linked from sterling.

Under Sec. 33 of the Reserve Bank Act, a portion of the assets of the Issue Department could be held in one kind of foreign currency, *viz.*, sterling. But for facilitating multilateral exchange transactions it is essential that the monetary reserves of the Central Bank should be composed of various sorts of foreign currencies. Section 33 has been amended by the Reserve Bank of India (Transfer to Public Ownership) Act, 1948, so that "foreign securities" have been substituted for "Sterling Securities" in sub-sections (1) and (2). The effect will be to permit the Reserve Bank to include in its legal reserve hard currencies in addition to sterling. Sub-section 3 (a) and 3 (b) of

Assets to be held in "foreign securities".

¹ S. K. Basu, *Recent Banking Developments* (2nd Ed.), pp. 371-73.

Section 17 have also been amended by the same Act so that the Reserve Bank may buy from and sell to scheduled banks "foreign exchange" generally in place of sterling alone, and buy, sell and rediscount bills of exchange drawn "on any country outside India which is a member of the I.M.F." and not simply on any place in the United Kingdom. In Sec. 18, sub-section (2), "foreign exchange" has similarly been substituted for sterling.

All these amendments are in consonance with the obligations India has undertaken as a member of the International Monetary Fund.

2. THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

The purposes of the International Bank, as set out in the Articles of Agreement, are to help in the reconstruction and development of member countries by facilitating the investment of capital for production purposes, including the restoration of war-time economies, the reconversion of production facilities to peace-time needs and the encouragement of the development of production resources in relation to under-developed countries.¹ The Bank can make (1) direct loans out of its own funds and (2) direct loans out of funds borrowed by it. It can also guarantee loans made by private investors. The authorised capital of the Bank has been fixed at 10,000 million dollars. This capital stock, however, may be increased with the approval of three-fourths of the voting power. The subscription assigned to each individual member corresponds to its quota in the Fund.

India's shares amount to 4,000, valued at 400 million dollars. Of this amount she has paid 8 million in U. S. dollars, \$720,383 in rupees, \$71,279,617 in non-interest bearing non-negotiable demand notes. There is a further amount of \$320 million subject to call by the Bank only when required to meet the obligations of the Bank created by borrowing or guaranteeing loans. She possesses 4,250 votes.²

On August 18, 1949 India received a loan from the International Bank amounting to \$34 million for financing the purchase of locomotives, boilers and locomotive parts. The

¹ Art. 1.

² *Fourth Annual Report.*



loan was for a period of 15 years and the rate of interest to be paid was 3 per cent. *plus* the usual commission of 1 per cent.

The second loan was granted by the Bank on 29th September 1949. The amount was \$ 10 million. It was repayable in 7 years and the rate of interest to be paid was 3 per cent. *plus* a commission of 1 per cent. The object was reclaiming by tractors 3 million acres of weed-infested land in Madhya Pradesh and Bhopal.¹

A third loan of 25 million dollars to finance a part of the foreign exchange cost of the Bokaro Thermal Power Plant in the Damodar Valley has been received by India.

The Bank has several other Indian projects under study. It has however turned down several proposed projects including a scheme to build locomotive plant at Chittaranjan and another to manufacture fertilisers.

Mr. A. Ramaswami Mudaliar, the Indian Delegate, speaking during the U. N. Economic and Social Council's debate on the Bank's record of work, voiced the feelings of India when he accused the Bank of neglecting the case of backward and under-developed countries. He criticised the Bank for its failure to finance bold schemes of post-war economic development, for its unwillingness to take risks even more than private investors and for its charging a high interest rate. Mr. Mudaliar's criticisms were supported by delegates from Peru, Brazil and Chile.²

¹ *Press Release* No. 171, February 8, 1950—International Bank for Reconstruction and Development.

² *The Statesman*, February 17, 1949.

CHAPTER XXV

PROBLEM OF THE STERLING BALANCES

IN December, 1946 the total volume of sterling securities held in the Issue Department of the Reserve Bank of India amounted to Rs. 1,135·32 crores while balances held abroad in the Banking Department were Rs. 485·76 crores. During 1938-39 sterling securities held amounted to Rs. 66·95 crores only and balances held abroad Rs. 4·21 crores. This huge accumulation of sterling balances has given rise to a set of very complex problems which have to be studied carefully.

Origin.

The first question is how the Reserve Bank of India came to accumulate those huge sterling assets. The principal cause of the accumulation was the peculiar method of financing the enormous war expenditure of the Allied Governments in India under which the Government of India first found the rupee finance for purchases of large quantities of war supplies and was then reimbursed by payments in sterling in London. Sterling continued to accumulate to the credit of the Government of India in London and all the time it was engaged in the process of finding the necessary rupee finance in India. Secs. 40 and 41 of the Reserve Bank of India Act, 1934, under which the Reserve Bank was put under statutory obligation of converting rupees into sterling and sterling into rupees, provided the mechanism by which the sterling balances were piled up against the issue of rupees in India and generated the enormous inflationary forces in the country. These provisions have consequently been bitterly criticised. An eminent businessman spoke of these balances as having bled white the country and hurt every section and every class of the people.¹ If these provisions had not existed, the Allied Governments would have been obliged to finance their war expenditure in India by the alternative methods of exporting gold or capital goods to India, selling British investments in India or floating rupee loans in

Causes of accumulation of sterling assets.

¹ Manu Subadar's speech, Legislative Assembly Debates, Vol. IV, No. 10, p. 3089.



the country. Any one of these methods would have spared us the horrors of inflation from which the country has not yet been able to extricate itself.

Another cause of the accumulation of sterling resources was India's export surplus since the war. From September, 1939 to March, 1943 the Reserve Bank purchased Rs. 382 crores worth of sterling from the exporters who obtained rupees in return.¹

Although the accumulation of sterling balances has produced in India one of the worst forms of inflation known in history, yet it has not been considered to be an unmixed evil by British officials who ruled the country. It has been contended that they have transformed the status of India from a debtor into a creditor country. Mr. Shenoy has challenged this view and has pointed out that "against the wiping out of our sterling debt and the accumulated sterling assets the enormous value of foreign investments in India has to be set."² Effects.

This accumulation brought along with it the question of their repayment in the future. A controversy, which sometimes became very bitter, raged round this question. While India demanded not only the repayment of the balances in full but also the multi-lateral convertibility of the released sterling, there was a section of the British people who argued in favour of a scaling down of the sterling balances. Some financial journals, and even a few statesmen, went so far as to suggest the repudiation of Britain's entire debt to India. The principal argument in favour of scaling down, which was advanced, was that the sterling balances were the result of the Financial Settlement regarding the allocation of war expenditure between Britain and India which was most generous to India but extremely unfair to Britain. The case for scaling down was supported by another argument. It was contended that the Allied purchases in India were made at highly inflated prices which, owing to the control of the exchange market, were not allowed to reflect themselves in the exchange rate of the rupee. The fourth report of the Select Parliamentary Committee on National expenditure (Session, 1944-45) gave the lie to the second contention. The Scaling down unfair.
Charge of profiteering baseless.

¹ C. N. Vakil, *Financial Burden of the War on India*, p. 70.

² B. R. Shenoy, *The Sterling Assets of the Reserve Bank of India*.



report has clearly shown that the purchases in India on behalf of His Majesty's Government were made at prices which were considered fair and reasonable. The complaint, therefore, about excessive charges being made by India was entirely baseless and there was no profiteering at all on the part of India. The first contention is entirely misleading. The burden placed on India by the military expenditure under the Financial Settlement was not so light as some critics have tried to make out and the sacrifices that India made were much greater than those of the U.K. or U.S.A. in relation to her capacity. This can be well understood if a comparison is made between the proportions of war expenditure to national incomes in the case of the three countries. Moreover, India passed through grim miseries during the war which culminated in the terrible tragedy of the Bengal famine.

Interim
Settlement
of 1947.

A temporary agreement for a period of six months regarding the utilisation of the sterling balances was reached between Britain and India on 14th August, 1947. The need for such an *interim* settlement arose from the fact that under the provisions of the Anglo-American Loan Agreement, Britain had been put under the obligation of making sterling freely convertible into dollars as from July 15, 1947. Sterling which had been accumulated before that date could indeed continue to be blocked, but whatever sterling was released would be automatically convertible into dollar. Hence, a limit had to be fixed as to the amount of sterling that could be released from the accumulated balances. The main features of this *interim* agreement were as follows: A distinction was drawn between current balances and blocked balances. Corresponding to this distinction, there were two Accounts—Nos. I and II. No. I Account would be the main operational account into which all sterling agreed to be released as well as future current earnings would go. The No. II Account would contain the remainder of the accumulated balances. It was agreed to release £35 million from out of the accumulated balances to No. I Account. A further sum of £30 million was also placed at the credit of the current account to be used as a reserve available for meeting temporary deficits in India's payments abroad. Besides this £65 million which would become available up to the end



of the year (1947), certain drawings were also permissible from No. II account.

One effect of this agreement was that we got convertibility but only of the small amounts of sterling released for the purpose. The rest became blocked—blocked against purchases even from Britain and other sterling area countries.

The above agreement was extended up to June 30, 1948 with certain modifications. But the major issue of the liquidation of our sterling balances still awaited solution. These six-monthly arrangements were found to be most inconvenient in practice and prevented the formulation of long-term co-ordinated trade policies.

In July, 1948 a fresh agreement was reached between Britain and India regarding the utilisation of the remaining sterling balances for a three-year period up to June 30, 1950. The agreement provided for the release by the U.K. during the period of three years from July 1, 1948 of a sum of £80 million, subject to certain conditions in addition to which India would carry forward the unspent balance on Account No. I of £80 million out of the previous releases. In other words, the total available foreign exchange for three years, over and above the current earnings by exports, would be £160 million (Rs. 213 crores). India's dollar requirements are substantial and current earnings from exports can only partially cover these. In the over-all world shortage of U.S. dollars it was not possible to settle the amount of releases that would be multi-laterally convertible over the entire period of three years covered by this agreement. For the time being, it was agreed that in the first year a sum of £15 million (Rs. 20 crores) would be made available for conversion into any currency. Any deficit in hard currencies, not covered by this release, would, therefore, have to be met by borrowing from the I.M.F.¹

Settlement
of 1948
(made by
Sanmukham
Chetty).

A major disappointment of the agreement was that the release of convertible sterling would be in trickles. The I.M.F. could provide only a temporary expedient and India, inspite of being a big creditor, would have to look for dollars from the World Bank or the U.S. Government. The difficulties of

¹ *The Reserve Bank of India Bulletin*, August, 1948.



depending on these sources are obvious inasmuch as such aid has to be shared along with rival applicants.

No official
declaration.

There has been no official British declaration that they intend to honour the entire balances without any demand for scaling down. There is apprehension in many quarters that the British Government would like to have the benefit of the policy of meagre releases with the possibility of scaling down.

It has also been pointed out that nine countries including the Argentine had obtained by 25th November, 1947 guarantees of their sterling in terms of gold or reciprocal exchange guarantees. But no such stipulation was secured for India.¹

On behalf of the Government of India, it was claimed that, considering Britain's ability to pay and India's absorptive capacity, the agreement was quite satisfactory.

The Indo-British Agreement of July, 1948 related, besides the question of utilisation of sterling balances, to two other matters—(a) the price to be paid for the military stores and installations taken over by the undivided Government of India on 1st April, 1947 and (b) the capitalisation of the sterling pensions of British officers who had served in India.

In course of time it came to be recognised both by the Indian and the British Governments that the convertibility allowed in the 1948 Agreement gave India a share far short of her needs. Ever since the end of the last war India has been in the grip of a severe dollar crisis. Due to the operation of a number of specific causes, such as an unavoidable rise of imports—particularly of food stuffs—in the face of an alarming fall of exports, India's dollar deficit in the first quarter of 1949 was bigger than was anticipated. Actually, India overdrew her account in 1948-49 by almost \$84 m. The 1948 Agreement was, thereon, modified by a new Sterling Balances Agreement in July, 1949. The extra dollar expenditure, for which there was no provision in the old Agreement, was provided for in the new Agreement by increasing the convertible sterling at India's disposal from \$60 m. to \$140 m. The net effect of the new arrangements was (a) to effect a release of £81 million for the year July, 1948 to June, 1949 for which the 1948 Agreement did

Settlement
of 1949
(made by
Dr. Matthai).

¹ The *Eastern Economist*, February 27, 1948, p. 428.



not provide any release, (b) to increase the annual release for the 12-monthly periods ending June, 1950 and 1951 from the original amount of £40 million to £50 million, and (c) to cause to be released an additional but unspecified sum sufficient to meet the cost of liabilities entered into under the old Open General Licence before its cancellation in May, 1949. The convertibility arrangement was not made on a bilateral basis between Britain and India, but was rather a part of the Commonwealth Finance Ministers' Conference in London. In the result, India was re-admitted to all the rights and duties of full membership of the sterling-area (which had been taken away from India in January, 1948), and the quantitative limitation on her right to draw hard currency¹ from the central reserves of the Area was removed. In pursuance of the recommendations of the Conference, India undertook to limit her imports from the dollar area to 75 per cent. of the amount she imported in 1948 (calendar year).

The new Agreement has, beyond doubt, been an improvement on the older one. But that it has not been to India's satisfaction is apparent from a statement of Dr. Matthai, the then Finance Minister, that "there is need for a very strict scrutiny and a very severe economy during the current year in respect of our foreign exchange expenditure."² "The agreement must be judged, not by what is ideally desirable, but by what is practicable"³ and the terms "seem as good as could be expected in view of the conditions in which they were negotiated."⁴

An improvement but not quite satisfactory.

Much excitement has been generated in India over the question of the possible scaling down of the sterling balances. Indian opinion, both official and non-official, has persistently opposed any such suggestion. But the Government of India's devaluation of the rupee, following in the wake of the devaluation of sterling in September, 1949, meant virtually a partial writing off of the balances for purposes of use in hard-currency markets.

¹ Dollar currency is only a species of hard currency under recent conditions of exchange.

² Dr. Matthai's Address to a Press Conference on August 4, 1949.

³ *The Statesman*, August 5, 1949, p. 6.

⁴ *Ibid.*



Cost of
sterling
balances.

Frittering
away in-
defensible.

The sterling balances were accumulated not only through the sufferings and sacrifices of the entire people of India but through the death of fifteen lakhs of persons in Bengal. These assets should, therefore, have been regarded as most valuable and ought to have been earmarked entirely for the purpose of alleviating the miseries of the people. But, unfortunately, a substantial part of these assets has been spent for meeting adverse trade balances. It may be argued that the balance of payments position of India had become so difficult that, without recourse to this expedient, India would not have been able to avoid a financial crisis. The reply to this argument would be that lack of foresight and imagination on the part of the Central Government of India was responsible for this situation. But whatever might have been done in the past, they should be more careful in future and should preserve the remainder of these valuable assets for the work of the economic reconstruction of the country.

CHAPTER XXVI

INFLATION

EVERYBODY in India has felt since 1939 the impact of a phenomenal increase in the prices of commodities. This rise continued steadily till the end of the war and, after a short period of lull, there has been a further enormous rise during the last three years. The Calcutta index-number rose from 115 in 1939-40 to 272 in March, 1943 and to 325 in May of the same year. The index-number of weekly wholesale prices prepared by the office of the Economic Adviser of the Government of India (Base: August 1939) rose from 100 to 220·1 in March, 1943. The Bombay cost-of-living index (July, 1933—June, 1934—100) shot up from 106 in 1939 to 208 in March, 1943 and to 227 in May of the same year. Rise in prices.

In the beginning, the official attitude towards the rising level of prices was that it was not inflationary. Sir James Taylor, the then Governor of the Reserve Bank of India, admitted in August, 1942 that there was an enormous rise in Indian prices but there was no cause and effect relation between the increase in the currency and the rise in prices. Sir Jeremy Raisman in his Budget Speech of 1943 contended that the belief that a general rise in prices must mean inflation and that it was caused by an avoidable expansion of currency was the result of confusing cause with effect. He observed: "Some of the fear which is now expressed arises from a failure to distinguish between pure credit inflation and the temporary situation in which an increase in the volume of purchasing power impinges for a time on a stationary or diminishing volume of consumable goods. In India the Government had at no time resorted to credit inflation. The easy expedient of borrowing from the Reserve Bank had not been adopted for making up the revenue deficit of the Governmental budgets or for augmenting Government balances for the purpose of meeting disbursements." The Finance Member also referred to the difficulty of making a quantitative determination of the phenomenon of inflation because of a lack of accurate Official attitude.



Non-official
attitude.

statistics. At any rate, according to him, there was not the remotest risk of the inflation of the nature and extent that could be witnessed in some European countries after World War I. Warnings, however, were given repeatedly by some members of the Legislative Assembly against the serious consequences of the steady and enormous expansion in paper currency which had been taking place.¹

Causes of
rise in
prices.

Prominent businessmen were of the opinion that the rise in prices was due to the scarcity of goods rather than the excess of purchasing power. They further contended that the reduction in the velocity of circulation had more than offset any currency expansion that might have taken place.

Though a part of the rise in prices could be accounted for by real scarcity, the explanation of the general level of prices of all commodities rising simultaneously at a rapid rate was to be sought in the existence of an increase in supply of currency, not justified by the prevailing level of production. The consensus of opinion among the economists was that the source of the all-round rise in prices and the consequent deterioration in the standard of living was to be found in the arrangements in force under which rupee-note disbursements were made in India on behalf of the British and Allied governments, the latter discharging their obligations in regard to war expenditure in India by providing sterling in London. A close correlation between the increase in the volume of note-issues, growth of sterling balances and rise in the level of prices was sought to be established by them.

Creation
of large
amount of
paper money.

Rupee-notes had been created in increasing quantities against the large and growing volume of India's sterling balances which continued to remain practically frozen in London. The Government of India thus assumed responsibility for providing rupee finance for India's recoverable war expenditure. The yield from current taxation and internal borrowing from the public did not cover the whole of this rupee finance. Although the budget deficits of the Government might have been fully covered by taxation and borrowing, this fact makes it clear that the government had recourse to the inflationary method

¹ *Vide* speeches by Dr. P. N. Banerjea in the Legislative Assembly, 1942, 1943 and 1944.



of financing that portion of war expenditure which was recoverable from the Allied Governments. Hence, inflation in India has been characterised as primarily of the Budget-induced type.

It is curious that within two months of the passing of the Budget for 1943-44 when the Finance Member had made a serious effort to explain away the existence of inflation, the Government of India introduced anti-inflationary measures by ordinances. In introducing the Budget for 1944-45, the Finance Member observed that he considered it to be his first duty to deal with the menace of inflation of the dangers of which all had become conscious. This change in the attitude of the Finance Member came very late, but even then the policy of the Government was not changed. The evil of rising prices could not be checked by these partial and insignificant measures.

A five-fold anti-inflationary drive by the Government was contained in the new Ordinances and the new Defence of India Rule (No. 94A):—(1) summary assessments for Excess Profits taxes; (2) conversion of the optional deposit systems into a compulsory one for Excess Profits taxes; (3) rational control of bonus and commission; (4) power to prescribe what stocks would be deemed reasonable for income-tax purposes; and (5) prohibition of the issue of new capital without the previous sanction of the Government of India.¹

When we consider the steps taken by the advanced countries to prevent and check inflation, we find a great contrast between their attitude towards the question and that of the Government of India. In the United Kingdom, the Government made a successful attempt to check the rise in the cost of living in war-time by a well-planned policy of subsidies, price control, and rationing. Between 1941 and 1944, the cost-of-living index was stabilised round about 122, when the wholesale price-index varied within the range of 131-144. In the United States, a substantial measure of price stability was also achieved. The cost-of-living index had increased from 86 in March, 1941 to 102 only in 1944. In India, the Bombay cost-of-living index stood at 224 in 1944 and rose subsequently to 244 in 1946 and 258 in 1947. Thus India, though not directly concerned in the

Steps taken
abroad
contrasted.

¹ *Commerce*, 22nd May, 1943.



War, fared much worse than the United States and Great Britain. The main reason is to be found in the fact that no adequate measures were taken to keep down prices in India. The introduction of price control and rationing came late, and even then these measures were not taken in the right manner.

(The evils of the inflationary rise in prices were marked in every sector of India's economy. The poorer classes, which comprise the majority of Indians, were particularly hit very hard by the unprecedented rise in the cost of living. There were to be witnessed widespread distress, malnutrition, starvation and even death in large numbers. A recent publication of the United Nations Department of Economic Affairs has observed, "It is correct to observe that this Bengal Famine of 1943 was largely a consequence of the inflation".¹ We have been told by the Famine Commission that this famine took a toll of 1½ million human lives.

From the end of 1943 to the end of 1945, prices in India remained relatively stable though at a very high level, as compared with 1939. The price indexes, specially after the middle of 1943, no doubt reflected controlled prices and took no account of the blackmarket prices in unrationed areas and with reference to non-rationed commodities, yet there are reasons for supposing that the pace of price increase was considerably checked after the middle of 1943. The two main factors that were responsible for this relatively stable situation were: (1) Budget deficits, after having reached a peak in 1943-44, became stabilised during the next two years, though at a very high level, and (2) introduction of partial rationing allowed a reduction of prices as compared with what would otherwise have been. By July 1944 limited schemes of rationing were in operation in 226 towns, covering a total population of 35 millions.

Outside the prescribed areas of rationing and in respect of non-rationed goods, more or less free markets existed and prices were generally unrestrained except by market forces. There was also a good deal of blackmarketing in breach of controls. The relative stability of prices during this period should not

¹ *Survey of Inflammatory and Deflationary Tendencies, United Nations*, Sept. 1947, p. 66.

mislead us to conclude that the position was satisfactory and that there was no cause for anxiety.

✓ It was widely believed during the war years that the end of the war would bring about a depression and a sharp decline in prices. Although there was a substantial reduction in defence expenditure and in the budget deficits to which the war had given rise, as also a cessation of war demand, the price level in the country continued to rise, though at a varying pace and subject to temporary and slight recessions from time to time.)

It will be seen from the Table given below that the rate of increase in the general index during 1946 and 1947 was considerably high, although it was about 10 points less in 1947 than in the previous year; the extent of the advance in the group index for primary commodities which included agricultural commodities was almost the same during the two years, while in respect of the other two indices, that is, those for raw materials and manufactured articles, the rate of rise was less in 1947 than in the previous year. The most significant increase, however, was in the general and group indices during the four months ended February, 1948, when the rise equalled, and in some cases exceeded, the total annual rise for the year 1947.

Extent of rise in the Index Number of Wholesale prices (August 1939—100).

Year	Agricultural articles	Raw materials	Primary commodities	Manufactured articles	General Index
1939-45	.. +134.8	+86.2	+114.4	+91.3	+109.3
1946 ..	.. + 47.5	+24.1	+ 37.2	+42.0	+ 38.3
1947 ..	.. + 48.6	+16.6	+ 33.4	+10.7	+ 28.1
From Nov. '47 to Feb. '48 ..	+ 48.1	+47.0	+ 45.9	+35.9	+ 28.2

✓ The main explanation for the continued rise in prices in spite of a reduction in budget deficits which was expected to bring about a decrease in consumption demand is to be found, first, in the fact that "delayed demand" for consumption goods had some appreciable effect on maintaining the total demand, and, secondly, on the supply position.



"Delayed demand."

The incomes of large landowners, industrial capitalists, traders, large, small and rich peasants had considerably increased in war time. Although they had spent a good deal of it, there were many things which had been simply unobtainable. Such a delayed demand was generally for imported rather than for home-produced goods. As many consumption goods which were expected to be obtained by importation immediately after the war were not available in large quantities, the tendency to substitute local products for them increased. Thus the total demand for local products was kept up. On the other hand, the supply of commodities not only did not increase but in some cases diminished in 1946, as compared with 1945. The aggregate production of rice, wheat, maize and barley which stood at 44 million tons during the official year 1945 amounted to 40 million and 41 million tons in 1946 and 1947. Industrial production also showed a declining trend. The output of cotton textiles, cement, paper and pig iron, on a comparison of the figures for the last three years recorded a continuous decline. Unsatisfactory despatches of coal, bottlenecks in transport, communal disturbances and industrial unrest were the chief causes of a decline in production.

Changes in the total quantity of money supply in the country (including Pakistan) may also be considered in this connection. The total money supply is taken here to refer to the sum of notes in circulation, rupee coins in circulation and demand liabilities of the scheduled banks less notes and coin held by the scheduled banks. In 1946-47 the change in the money supply was negligible. The money supply stood at Rs. 2,051 crores at the end of March, 1946 and at Rs. 2,053 crores at the end of March, 1947. But it advanced to Rs. 2,167 crores and was Rs. 93 crores above the highest level during the year 1946-47.

Deshmukh's analysis.

Sir Chintaman Deshmukh, Governor of the Reserve Bank of India, in his annual address to the share-holders in August, 1948 made a searching analysis of the causes of the upswing in the inflationary curve (September, 1947 to June, 1948). (He argued that purely monetary influences played a minor role, for commercial bank credit had been declining for some time and notes had also been returning from circulation at a fairly

rapid rate. He listed the following remediable causes of this inflationary spurt:

(1) a premature policy of decontrol, (2) deficit budgetting by the Central and Provincial Governments on both revenue and capital accounts and (3) declining industrial production specially for the home market.

Inability to obtain machinery and other capital equipment also hampered the expansion of the output of India's production of industrial consumption goods. This was no doubt a temporary condition; but so long as it continued, it was sure to contribute to the inflationary trends in India. The redistribution of money income in favour of the wage-earning class, at a time when real income as measured by the volume of production of goods and services was known to be falling, tended to accelerate the price advance. ✓

The effects of all these inflationary forces, however, were not fully reflected in the extent of the rise in the general index number which between October, 1946 and October, 1947 fluctuated between 289 and 298, presumably because some of the principal commodities covered by the index were controlled and rationed and for purposes of computation only official prices were taken into account.

Government policy of progressive decontrol of food grains was implemented after November, 1947. That at once brought about a sudden spurt in prices. The general price index, which had been almost continually rising, shot up from 290.5 in January, 1947 to 381.0 in June, 1948—the rise being marked particularly since November, 1947. During the period from November, 1947 to June, 1948, the index rose by 79 points whereas between January, 1947 and October, 1947 it rose by nearly 12 points. The food index rose from 294.8 in November, 1947 to 377.0 in June, 1948, an increase of 82 points.

Effect of
decontrol of
food grains.

The remedies suggested for checking the inflationary developments by the Committee of Economists, consulted by the Government of India in the middle of August, 1948 were as follows:—

Suggestions
by Com-
mittee of
Economists.

- (1) Balancing of budgets by the Central and Provincial Governments by retrenchment of expenditure. Proposals relating to welfare activities, grants to provincial



governments for various schemes of development and the Grow More Food Campaign should be scrutinised and expenditures on these heads should be restricted.

- (2) Postponement of the refunds of E.P.T. deposits.
- (3) Postponement of schemes relating to prohibition.
- (4) Postponement of abolition of Zamindaries by payment of compensation in cash.
- (5) Reviewing the existing commitments of capital expenditure, with a view to ascertaining which could be postponed without serious disadvantage.
- (6) Prevention of Tax Evasion.
- (7) A graduated surcharge on income-tax in personal incomes above Rs. 5,000.
- (8) Increase of the Business Profits Tax from 10 per cent. to 25 per cent.
- (9) Raising of the levels of personal Super-tax to those which were in operation in 1947-48.
- (10) Introduction of steeply graduated death duties.
- (11) Introduction of Agricultural Income-tax in all provinces.
- (12) Surcharge on Land Revenue.

The following monetary measures were also recommended:—

- (1) To put a ceiling on note issue and (2) restriction of credit by prescribing a holding of Government securities amounting to at least 25 per cent. of the total demand liabilities of each bank.

As regards controls, besides the introduction and intensification of rationing and price control, it was suggested that a ceiling should be placed on all personal incomes such as wages, salaries and dividends. In the case of new companies the dividends should not exceed 6 per cent.

Price trends
during
1949-50.

Inflationary forces could not be mitigated and they continued to be the major problem throughout the period, July, 1949 to June, 1950. The need for holding these forces in check was not only as great as before, but even greater after the devaluation of the rupee in September, 1949. After the devaluation, the Government became particularly alert to this aspect of the question and decided to intensify its anti-inflationary drive. In October, 1949 a comprehensive eight-point programme was outlined. The principal objects of this programme were: first, to increase India's



earnings of foreign exchange, and, secondly, to bring down the level of prices. The various steps that the Government took in launching afresh its anti-inflationary drive included (1) cuts in the prices of controlled commodities like food-grains, cloth, etc., (2) prohibition of future trading in cotton seeds, sugar, *gur*, etc., with a view to checking speculation, (3) imposition of export duties on some of the goods exported to hard currency countries, (4) reduction of government expenditure and (5) introduction of a scheme for compulsory savings applicable to government servants.¹

Despite the various disinflationary measures money supply increased during July, 1949—June, 1950 by Rs. 16 crores as against a fall of Rs. 137 crores in the year 1948-49.

The Economic Adviser's general index showed an unmistakable and continuous upward trend during June, 1949 to September, 1949. It shot up from 378·3 to 389·8 during the period. After the devaluation of the rupee a new peak was reached in October, 1949 when the price index soared to 393·3. The anti-inflationary drive of the government after the devaluation was fairly successful in the beginning when the index declined to 381·3 in December, 1949. But the first quarter of 1950 witnessed a definite reversal of the trend and the October peak was again reached in May, 1950 (393·3). In June, 1950 there was a further increase when the index reached 395·6. The index is still rising and in July it leapt to 405·2.² The price situation is most disconcerting and implies the presence of strong inflationary forces in the economy of India. The aggravation of the problem clearly indicates either the inability or the unwillingness of the Government to control inflation. Meanwhile, the entire people of India, particularly the poor and the middle classes, are suffering untold hardships owing to the extremely high prices of food and other essential necessities of life and acute distress is prevailing all over the country.

Problem
aggravated.

¹ *Report of the Central Board of Directors, Reserve Bank of India, for the year ended June 30, 1950, p. 16.*

² *Reserve Bank of India Bulletin, August, 1950, p. 580.*



CHAPTER XXVII

THE STATE AND INDUSTRY

E. I. Com-
pany a
trading cor-
poration.

THE East India Company was primarily a trading corporation whose chief business was to exchange the manufactured goods of England for the agricultural products of India. But when the Company attempted to improve the existing industries of the country, by organising and financing, "their policy met with opposition from vested interests in England, which were at one time sufficiently powerful to insist that it should be suspended, and that the Company should instead concentrate on the export from India of the raw materials necessary for manufacturers in England."¹

*Laissez
faire.*

Besides, the acceptance of the policy of *laissez faire* or economic individualism in England kept the Government of India more or less aloof from the industrial affairs of the country. It was held that what was good for England was beneficial to India as well, even though the circumstances of the two countries were quite different. The efforts of the state were confined to improving communications and facilitating the flow of trade. The result was that the old industries of the country gradually decayed owing to their inability to withstand an unequal competition, and the artisans were compelled to leave their old occupations and take to the cultivation of land. This increased the pressure of the population upon land, as was pointed out by the Indian Famine Commission of 1880. In many parts of the country the number of persons who had no employment other than agriculture was greatly in excess of what was really required for the cultivation of the land. Another consequence was that India was gradually converted into an exporter of food-stuffs and raw materials and an importer of foreign manufactures.

Need for a
change in
policy.

The Famine Commission of 1880 directed the attention of the Government to a policy of diversification of industries as a remedy against the recurrence of famines. About the same

¹ Report of the Indian Industrial Commission, p. 75.

time, thoughtful Indians felt that the existing conditions were unsatisfactory, and insisted that the state should take an active part in promoting the industrial development of the country. The first measure adopted by the Government took a two-fold form, namely, a very imperfect provision of technical education, and the collection and dissemination of commercial and industrial information. The Calcutta Exhibition of 1884-85 was an expression of this policy. There was also an examination of the resources of India by the Reporter on Economic Products, and the publication of a number of monographs on Indian industries. The creation of the Department of Commerce and Industry in 1905 foreshadowed the pursuit by the Government of India of a more definite policy of industrial development. But in 1910 its activities were curtailed by a decision of the then Secretary of State for India. Some of the Provincial Governments had taken a few practical steps in the matter. The Madras Government had taken the initiative in experimenting with the production of aluminium hollowware, in the improvement of hand-loom weaving, and in the introduction of chrome processes of leather manufacture. The Government of the United Provinces had started a pioneer oil mill, and granted loans for the establishment of a sugar factory. This policy was disapproved by Lord Morley, who, in a despatch, said: "The policy which he was prepared to sanction was that state funds might be expended upon familiarising the people with such improvements in the methods of production as modern science and practice of European countries could suggest. Further than this the state should not go, and it must be left to private enterprise to demonstrate that these improvements could be accepted with advantage." It goes without saying that this action was the outcome of a lamentable lack of foresight on the part of an able statesman like Lord Morley. His dictum produced a deadening effect on the initial attempts made by the Government for the improvement of industries.

Lord Crewe, while re-affirming the decision of his predecessor, said: "There is no objection to the purchase and maintenance of experimental plant for the purpose of demonstrating the advantages of improved machinery or new processes, and for ascertaining data of production." He limited the functions of

Govern-
ment's
narrow
view.



the Directors of Industries in Madras and the United Provinces to the following kinds of work, namely, (1) to collect information as to existing industries, their needs, and the possibility of improving them or of introducing new industries; (2) to carry out and direct experiments connected with such enquiries; (3) to keep in touch with local manufacturers, to bring the results of experiment to their notice, and to obtain their co-operation in the conduct of operations on a commercial scale; (4) to supervise the training of students; and (5) to advise Government with regard to technical matters involving legislation.¹

Public
agitation.

Meantime, Indian public opinion had begun to demand a forward policy in regard to industrial development. The Partition Agitation in Bengal with its programme of *Swadeshi* and the boycott of British goods impressed the people of the country with their helpless industrial situation. Private efforts were made to start industries and to equip the younger generation with mechanical and scientific training. These efforts in many cases failed, but they made manifest the real industrial position of the country. The Industrial Conferences organised by a body of prominent Congressmen and industrialists riveted the attention of the country upon the possibilities of industrial development in India. The example of Japan showed what an Asiatic country could do in the matter of industries, when the Government supported its activities. But the policy of the Government of India was one of hesitancy and non-interference. The result was that the European War showed clearly and vividly the industrial shortcomings of India, which proved a source of weakness both to India and the Empire. In March, 1916, Sir Ibrahim Rahimtoola moved an important resolution in the Imperial Legislative Council urging the appointment of a Committee to consider what measures should be adopted for the growth and development of industries in India. This led to the appointment of the Industrial Commission under the chairmanship of Sir Thomas Holland. The Industrial Commission expressed their regret at the failure of the Government of India to adopt a vigorous and well-thought-out policy for India's industrial expansion in these words, "Much valuable

Industrial
Com-
mission.

¹ Report of the Indian Industrial Commission, p. 79.

time has been lost, during which substantial advances might have been registered, and the outbreak of war, which should have proved an opportunity to reap the fruits of progress, has served mainly to reveal and accentuate startling deficiencies."¹

The Commission, discussing the industrial deficiencies of India, laid special emphasis on the fact that, while India produced nearly all the raw materials necessary for the requirements of a modern community, she was unable to manufacture many of the articles essential alike in times of peace and war. For instance, her great textile industries were dependent upon supplies of imported machinery, and would have to shut down if command of the seas were lost. It was vital, therefore, for the Government to ensure the establishment of those industries whose absence was likely to expose the country to great danger in the event of war. The Commission pointed out that the formulation of a definite industrial policy rested upon the acceptance of two important principles: (1) that in future Government must play an active part in the industrial development of the country, with the aim of making India more self-contained in respect of men and material; and (2) that it would be impossible for Government to undertake that part, unless it was provided with adequate administrative equipment and fore-armed with scientific and reliable technical advice. The Commission suggested that state aid to industries might be rendered in various ways, e.g., research, the survey of natural resources, technical and scientific advice, educational facilities, commercial and industrial intelligence, the establishment of pioneering and demonstration factories, direct financial assistance, and local purchase of stores.

Under the Montagu-Chelmsford Reforms the development of industries became a provincial transferred subject, and this led to a division of the functions of the Central and Provincial Governments in regard to industrial activities. The Central Department of Industries was made responsible for the general direction of the accepted industrial policy of the country, including technical and industrial education. The other duties of the Department consisted in the initiation and running of

M.-C.
Reforms
regime.

¹ Report of the Indian Industrial Commission, p. 82.



any all-India pioneer and research factories which might be needed; the management of full-scale Government factories; the supply of stores; the collection and dissemination of commercial and industrial intelligence. In other words, subjects of all-India interest were kept in the hands of the central authority. The provincial departments were charged with the duty of rendering advice and assistance to local industries of all kinds in technical matters and giving direct financial aid. They were also to collect industrial and commercial information. They had under them a fairly large staff, including engineers, technological chemists, specialists in various industries, craftsmen, and technical and industrial teachers of various grades.

The financial difficulties of the post-war period rendered the schemes of many Provincial Governments infructuous, and consequently progress in this direction was extremely slow. In Madras, a Textile Institute and a Leather Institute were established. Under the provisions of the State Aid to Industries Act, 1923, power was taken to grant loans to industries under certain conditions. At Kanpur, in the United Provinces, a Technological Institute was started with the object of imparting instruction in dyeing and in the chemistry of oils and fats. A Leather Institute was also started for the training of foremen. The Board of Industrial Loan Commissioners dealt with applications for financial assistance to new industrial undertakings. In Bihar, for the training of young men in the iron and steel industry, a Metallurgical Institute was established. A School of Mines was established at Dhanbad, while a railway workshop was started at Jamalpur. In Bengal, the Government Research Institute began to make experiments in chrome tanning. Some amount of spade-work was thus done, but no large scheme was taken in hand.¹

Activities
of the
Govern-
ment in the
thirties.

In years following the introduction of Montague-Chelmsford Reforms, small industries received some attention and help from the Government. Demonstration parties for carrying instruction to the villages were organised by some Provincial Governments. These demonstration parties generally gave lessons to the villagers in hand-loom weaving and sericulture.

¹ Sir Thomas Ainscough's *Report*.



In 1934, the Government of India decided to spend a sum of Rs. 1 lakh a year for 5 years on the development of the silk industry in India.

Among permanent institutions engaged in the training of artisans we may mention the Central Weaving Institute at Poona, the Silk Institute at Bhagalpore, the Silk Weaving and Dyeing Institute at Berhampore in Bengal, the Wool Weaving Institute at Gaya, the Cottage Industries Institute at Gulzarbagh, Patna, and the Government Textile Institute in Madras.

Acts for granting state aid to industries requiring financial assistance were passed in Madras, the Punjab, Bihar, Orissa, Bengal and the Central Provinces. In Bengal, the Government framed a scheme for helping to bring into existence an Industrial Credit Syndicate which would offer financial facilities to released *détenus* seeking to pursue an industrial career.

The introduction of provincial autonomy under the Government of India Act of 1935 gave wide powers to the provincial ministers in respect of industries. Some provinces undertook investigations into the possible ways of encouraging industries. Active steps were also taken in most of the provinces to help the growth of indigenous industries.

Government help after provincial autonomy.

Among the most important of the proposals of the Industrial Commission was one which recommended the local purchase of Government and railway stores. The Government, in its different departments, commercial as well as administrative, is a large purchaser of industrial products. It is almost an invariably common practice in all advanced countries to purchase Government stores from local manufacturers to the fullest possible extent, and even to encourage and assist the establishment of necessary industries for the supply of various articles. In India, however, for a very long time, the Government took no steps to encourage the local production by the purchase of stores. All the necessary stores, amounting in value somewhere between 10 to 15 crores of rupees per annum, were purchased through the India Office in England. Similarly, the Indian railways purchased large quantities of materials costing 10 to 12 crores a year from England. It was the Munitions Board, established during World War I, which for the first time took substantial steps towards encouraging local purchase. Large quantities of

Purchase of stores.



chemicals, leather and textile products were purchased in India. It is also worthy of note that the Tata Iron and Steel Company rendered invaluable service to the Government by supplying large quantities of rails and sleepers for military railways in Mesopotamia, Palestine, East Africa, and Salonika. The experience gained from the successful operations of the Munitions Board brought into prominence the desirability of establishing a Stores Department in India, with the object of diverting to Indian mills and workshops the large indents which were usually sent to London.

Indian
Stores De-
partment.

In 1919, an Expert Committee recommended the constitution of an Indian Stores Department with a view to bringing Government buyers into effective touch with local manufacturers and supplying Government indents in an increasing degree in India. The Department was set up in 1922 and immediately took up the purchase of textile goods for the army and other departments in India. The two organisations for inspection and test—the Metallurgical Inspectorate at Jamshedpur and the Government Test House at Alipore—were incorporated as parts of this Department. In 1931, the Government issued a revised set of rules for regulating the purchase of stores. The preamble stated that “the policy of the Government is to make their purchase of stores for the public service in such a way as to encourage the development of the industries of the country to the utmost possible extent, consistent with economy and efficiency”. According to these rules, preference in making purchases was given in the following order: first, to articles produced in India or manufactured in India from Indian raw materials, provided that the quality was satisfactory; secondly, to articles wholly or partially manufactured in India from imported materials; thirdly, to articles of foreign manufacture stocked in India; and fourthly, to articles manufactured abroad and specially imported. During the eight years 1928-29 to 1935-36, the Indian Stores Department purchased articles, wholly or partially manufactured in India, worth Rs. 15.6 crores.

Revised
rates.

Railway
Stores.

Another important line of state-help to industries came from the orders placed by the Railway Board for materials and for construction. The rupee tender system was adopted for all such purchases and orders, and in 1935-36, railway stores worth

Rs. 2.78 crores were purchased in India. Some orders for bridge construction or repairs were placed with Indian firms. The Indian Iron and Steel Company obtained a long-term contract for manufacturing cast-iron sleepers. Collieries also supplied a large amount of their raisings to the Railway Board. From 1928-29 to 1934-35, all orders for railway wagons and under-frames were placed in India for manufacture in the country.

There was, however, one fact which cannot be ignored. Many European firms were registering themselves in India with rupee capital and with a small number of Indians on the Directorate in each case. These firms were claiming all the privileges available to Indian firms, and were receiving a large proportion of the Government orders. In such cases, Indian labourers, mostly of the unskilled sort, and Indian producers of raw materials were undoubtedly benefited, but it would have been more gratifying if Government stores could be supplied by firms started by Indian capital and enterprise.

Non-Indian concerns in India.

The most important step taken by the Government for helping the Indian industries was the policy of protection.¹ The development of the iron and steel industry, the sugar industry, or the textile industry would not have been possible if the Government had not brought about a re-orientation of their fiscal policy after World War I.

Protection.

The Government thus began to recognise its responsibilities in the matter of industrial development. What was wanted was the adoption of a vigorous policy.²

Vigorous policy needed.

During World War II, the industrial activity was switched on to the requirements of the war. Towards the end of the War, however, the Government of India prepared a full-fledged policy of industrial development. This was announced in April, 1945.

¹ Detailed discussion about the protective system will be found in a later chapter of the book.

² With regard to one important aspect of the question, an experienced officer had remarked long ago, "With the spread of education, to which a stimulus is now being applied, and the desire which exists of improving the condition of the people, corresponding assistance seems called for in the sphere of economic development. Unless this is given, a condition of affairs will be created wherein the better educated will not have suitable material to which to devote their minds, and there will result the anomalous spectacle of a highly educated people in an undeveloped country."

✓ The different objectives of this new policy may be summed up as follows:

Announce-
ment of
April, 1945.

(i) Rapid industrialisation of the country ; (ii) balanced regional distribution of industries ; (iii) balanced development of the economy as a whole ; and (iv) equitable distribution of the national income. ✓ With respect to rapid industrialisation, the Government was prepared to take the following steps: (1) Nationalisation of basic industries of national importance ; (2) Supplementing private enterprise by State enterprise wherever expansion was necessary ; (3) financial aid to private industry by way of loans and subscriptions to share-capital ; (4) guaranteeing a minimum dividend on capital invested, or undertaking to meet losses initially for a fixed number of years. The Government also proposed to assist industries by facilitating research work, standardising production, procuring capital goods, securing the services of expert technicians, and so on. ✓ For balanced regional development it was intended (1) to fix targets, (2) to allocate them on a regional basis, and (3) to see that the targets were reached. ✓ To ensure a balanced development of the economic system as a whole, it was proposed to check industrial growth beyond a certain size, to control private investment, for otherwise capital might flow excessively in one direction and lead to lop-sided development. ✓ For equitable distribution, the proposal was (1) "to secure for industrial workers a fair wage, decent conditions of work and living and a reasonable security of tenure", (2) "to prevent excessive profits to private capital," (3) "to ensure that unhealthy concentration of assets in the hands of a few persons or of a special community would be avoided", which was to be achieved by "a judicious exercise of controls, such as, capital-issue controls and the licensing machinery for the regionalisation of industry". This plan was the swan-song of the British Government in India. No definite attempts were made to give effect to it.

✓ After the attainment of independence by India the objectives of economic development in the country have been laid down in the "Directive principles of State policy" of the New Constitution.

Article 38 describes the social order which is sought to be secured. The State is directed "to promote the welfare of the

people by securing and protecting, as effectively as it may, a social order in which justice, social, economic and political, shall inform all the institutions of the national life". To achieve such an order, it is enjoined in Article 39 that the State "shall direct its policy towards securing:

- (a) that the citizens, men and women equally, have the right to an adequate means of livelihood ;
- (b) that the ownership and control of the material resources of the community are so distributed as best to subserve the common good ;
- (c) that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment ;
- (d) that the health and strength of workers, men and women, and the tender age of children are not abused and that citizens are not forced by economic necessity to enter avocations unsuited to their age or strength ;
- (e) that children and youth are protected against exploitation and against moral and material abandonment."

The further implications of this policy are brought out in Articles 41, 42 and 43. Under Article 41, the State shall "within the limits of its economic capacity and development, make effective provision for securing the right to work, to education and to public assistance in cases of unemployment, old age, sickness and disablement, and in other cases of undeserved want". Article 42 requires that the State shall "make provision for securing just and humane conditions of work and for maternity relief". Article 43 contains a further elaboration of the same ideal. Under it the State shall "endeavour to secure, by suitable legislation or economic organisation or in any other way, to all workers, agricultural, industrial or otherwise, work, a living wage, conditions of work ensuring a decent standard of life and full enjoyment of leisure and social and cultural opportunities".

On the economic side, among the primary duties of the State are "the raising of the level of nutrition and the standard of living of its people and the improvement of public health".



Article 48 directs that the State "shall endeavour to organise agriculture and animal husbandry on modern and scientific lines" and Article 43 that "the State shall endeavour to promote cottage industries on an individual or co-operative basis in rural areas".

An Industries Conference was held in December, 1947, which came to certain general conclusions regarding (1) industrial policy, (2) progress needed in industrial production and (3) industrial relations.

*Statement
on Industrial
policy,
1948.*

The broad policies embodied in the "Directive principles" of the Constitution are emphasised in the Resolution on Industrial Policy issued by the Government of India on April 6, 1948, which are summarised below:—

Firstly, the Resolution takes as its starting-point the nation's resolve "to establish a social order where justice and equality of opportunity shall be assured to all people".

Secondly, it lays down that all efforts should be directed to securing an appreciable rise in the standard of living within the shortest possible time. To quote from the Resolution:

"The immediate objective is to promote a rapid rise in the standard of living of the people by exploiting the latent resources of the country, increasing production and offering opportunities to all for employment in the service of the community."

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"A dynamic national policy must, therefore, be directed to a continuous increase in production by all possible means, side by side with measures to secure its equitable distribution. In the present state of the nation's economy, when the mass of the people are below the subsistence level, the emphasis should be on the expansion of production, both agricultural and industrial; and in particular, on the production of capital equipment of goods satisfying the basic needs of the people, and of commodities the export of which will increase earnings of foreign exchange."

Thirdly, the Resolution contemplates a mixed economy. There is a sphere reserved for private enterprise and another for public ownership. The Government of India

“feel that for some time to come, the State could contribute more quickly to the increase of national wealth by expanding its present activities wherever it is already operating and by concentrating on new units of production in other fields, rather than on acquiring and running existing units. Meanwhile, private enterprise, properly directed and regulated, has a valuable role to play.

“On these considerations the Government have decided that the manufacture of arms and ammunition, the production and control of atomic energy, and the ownership and management of railway transport should be the exclusive monopoly of the Central Government. Further, in any emergency, the Government would always have the power to take over any industry vital for national defence. In the case of the following industries, the State—which in this context, includes Central, Provincial and State Governments and other Public Authorities like Municipal Corporations—will be exclusively responsible for where, in the national interest, the State itself finds it necessary to secure the co-operation of private enterprise subject to such control and regulation as the Central Government may prescribe:

- (1) Coal (the Indian Coalfields Committee's proposals will be generally followed).
- (2) Iron and Steel.
- (3) Aircraft Manufacture.
- (4) Ship-building.
- (5) Manufacture of telephone, telegraph and wireless apparatus, excluding radio receiving sets.
- (6) Mineral Oils.

“While the inherent right of the State to acquire any existing industrial undertaking will always remain, and will be exercised whenever the public interest requires it, Government have decided to let existing undertakings in these fields develop for a period of ten years, during which they will be allowed all facilities for efficient

working and reasonable expansion. At the end of this period the whole matter will be reviewed and a decision taken in the light of circumstances obtaining at the time. If it is decided that the State should acquire any unit, the fundamental rights guaranteed by the Constitution will be observed and compensation will be awarded on a fair and equitable basis."

"Management of State enterprise will, as a rule, be through the medium of public corporations under the statutory control of the Central Government, who will assume such powers as may be necessary to ensure this."

"The rest of the industrial field will normally be open to private enterprise, individual as well as co-operative. The State will also progressively participate in this field; nor will it hesitate to intervene whenever the progress of an industry under private enterprise is unsatisfactory."

There is, besides, a list of 18 industries which will be subject to "Central regulation and control", inasmuch as "their locations must be governed by economic factors of all-India import" or "they require considerable investment and a high degree of technical skill".

Fourthly, the Resolution emphasises the very important role cottage and small-scale industries have in the national economy "offering as they do scope for individual, village or co-operative enterprise and means for the rehabilitation of displaced persons" and the desirability of decentralising larger industries wherever conditions permit.

Fifthly, the Resolution enunciates a policy of social justice, fair labour conditions as an essential basis for harmonious relations between management and labour. It says:

"The Government . . . recognise that their objective, *viz.*, securing the maximum increase in production, will not be realised merely by prescribing the respective spheres of the State and of private enterprise in industry. It is equally essential to ensure the fullest co-operation between labour and management and the maintenance of stable and friendly relations between them. A Resolution on this subject was unanimously passed by the Industries

Conference which was held in December, 1948. Amongst other things, the Resolution states:—

“ The system of remuneration to capital as well as labour must be so devised that, while in the interests of the consumers and the primary producers, excessive profits should be prevented by suitable methods of taxation and otherwise, both will share the product of their common effort after making provision for payment of fair wages to labour, a fair return on capital employed in the industry and reasonable reserves for the maintenance and expansion of the undertaking.”

“Government accept this Resolution. They also consider that labour’s share of the profits should be on a sliding scale normally varying with production. They propose in addition to the over-all regulation of industry by the State to establish machinery for advising on fair wages, fair remuneration for capital, and conditions of labour. They will also take steps to associate labour in all matters concerning industrial production”. The machinery contemplated for this is also set out.

Sixthly, reference is made to the tariff policy of Government. This “will be designed to prevent unfair foreign competition and to promote the utilisation of India’s resources without imposing unjustifiable burdens on the consumer”.

Seventhly, the policy in regard to foreign capital is explained in the following terms:—

“The Government of India agree with the view of the Industries Conference that, while it should be recognised that participation of foreign capital and enterprise, particularly as regards industrial technique and knowledge, will be of value to the rapid industrialisation of the country, it is necessary that the conditions under which they may participate in Indian industry should be carefully regulated in the national interest. Suitable legislation will be introduced for this purpose. Such legislation will provide for the scrutiny and approval by the Central Government of every individual case of participation of foreign capital and management in industry. It will provide that, as a rule, the major interest in ownership,

and effective control, should always be in Indian hands ; but power will be taken to deal with exceptional cases in a manner calculated to serve the national interest. In all cases, however, the training of suitable Indian personnel for the purpose of eventually replacing foreign experts will be insisted upon."¹

This was further elucidated by the Prime Minister in his Statement in Parliament on April 6, 1949 in the course of which he not only emphasised the need for foreign capital for the industrial expansion of India, but definitely encouraged the importation of such capital under fair and legitimate conditions and with as few restrictions as possible.

¹ *Resolution on Industrial Policy as summarised in the Report of the Fiscal Commission*, pp. 11-14.



CHAPTER XXVIII

INDUSTRIAL DEVELOPMENT

1. RECENT HISTORY AND PRESENT POSITION

WE have already seen that the progress of industry in India, since its regeneration, was very slow till World War I. This war gave a little impetus to industrial production, but the real stimulus came from protection. During the seventeen years, 1922-39, there was a considerable progress in industry. If we take a few of the important articles, we find that the production of steel ingots expanded eight-fold, the production of cotton piece-goods increased by nearly two and half times, the output of matches and paper registered increases of 38 per cent and 180 per cent respectively, and cane-sugar recorded a tremendous advance from 24,000 tons in 1922 to 931,000 tons in 1938.¹ In spite of this progress, however, India was still very backward in industrial production, compared to the positions of the advanced countries.

World War II found India industrially unprepared. During this war, however, there was considerable rise in production necessitated by war requirements. The peak was reached in 1944 when production was 126·8 per cent above the pre-war level.² A few key industries sprang up with state support and some industrialists made abnormally large profits. But the expansion was not of a lasting character, as no attempt was made to convert war-time industrial activity to peace-time production.

¹ The position will be clear from the Table given below:

	1922	1932	1939
Steel Ingots (000 tons) ...	131	591	1,042
Cotton Piece-goods (mln. yards) ...	1,714	3,170	4,116
Matches (mln. gross) ...	16	19	22
Paper and Paper Boards ...	24	40	67
Cane sugar (000 tons) ...	24	153	9,317

² Peak production in the five articles were:

Steel Ingots (000 tons) ...	...	...	1,343
Cotton Piece-goods (mln. yards) ...	...	...	4,852
Matches (mln. gross) ...	...	...	22
Paper and Paper Boards ...	...	...	98
Cane sugar (000 tons) ...	...	...	1,210



The vast opportunities created by the war were thus wasted. Immediately after the cessation of the war, a steady decline in production commenced and the lowest limits were reached in 1946-47 and 1947-48.

1947-48.

Industrial production continued to be hampered, partly by the lack of confidence engendered by the political and economic uncertainties and, partly by the virtual non-availability of machinery and stores, shortage of raw materials, difficulties of transport and the frequent disputes between labour and capital. In these circumstances, the Tripartite Industries Conference, held in December, 1947 considered the problem of labour-capital relations at length and adopted, *inter alia*, an important Resolution calling for a three-year truce between capital and labour and providing for the creation of a comprehensive machinery (since created in May, 1948) for the study and determination of fair wages and conditions for labour and fair remuneration for capital. Other measures taken to step up production and, in particular, to restore the incentive to industry, included (1) the grant of tax concessions to industry in the budget for 1948-49, (2) the assurances given from time to time by the authorities of their intention not to reverse their cheap money policy but to consolidate the gains hitherto made in that direction and (3) the passing by the Constituent Assembly (Legislative) on 13th February of a Bill to establish the Industrial Finance Corporation.¹

1948-49.

Industrial production in 1948 showed in almost all sectors some improvement over 1947, two important exceptions being steel and coal which registered decline. While the over-all output in 1947 had gone down by about 5 per cent. below the pre-war level, the output in 1948 was estimated at about 15 per cent. higher than the pre-war level. Textile production improved to some extent in 1948. The output of cement moved up slightly, while that of paper advanced considerably. Sugar output was also substantially higher. Soap production recorded a marked increase, while notable increases were also registered in caustic soda, soda ash and super-phosphates. The output of salt reached a record level, there being an increase of 20 per

¹ *Report on Currency and Finance, 1947-48, p. 52.*

cent. over the 1947 figure. According to a statement made by the Minister for Industry and Supply, Government of India, production in 25 industries, during the first quarter of 1949, indicated that not only the increase noticed in 1948 was generally well maintained, but some of the industries actually registered substantial increases.

The main contributory factors accounting for the over-all gain during 1948-49 included a distinct improvement in the labour situation, an easing of the transport bottleneck, expansion of existing industries as in cement, better utilisation of existing capacity as in cotton textiles, and the coming into operation of new units in a number of lines including motor car batteries, electric motors, electric fans, diesel engines and caustic soda.

While, thus, the year 1948-49 witnessed a measure of recovery in over-all production, the output in some of the major industries continued to be below the installed capacity. Cotton manufacture, steel and cement failed in 1948 to reach their installed capacity. This was attributed to a number of factors, including a general lack of incentive among industrialists, the go-slow tactics of labour and, perhaps, most important of all, the continued shortage of raw materials and capital equipment. Costs of production have risen partly on account of additions to wages and salaries and partly as a result of the continued rise in the prices of raw materials. This is particularly disquieting in view of the imperative need to step up exports in order to relieve the heavy pressure on the country's balance of payments position. As against these handicaps, there were, however, some redeeming features. The labour situation showed a distinct improvement, mainly as a result of the action taken in pursuance of the resolution calling for an industrial truce adopted by the Tripartite Industries Conference of December, 1947. The total number of man-days lost on account of industrial disputes in the Indian Union during 1948-49 was appreciably lower at 61 lakhs as against 147 lakhs in 1947-48. Mention may be made here of the Expert Committee on Profit-sharing in industry, which the Government appointed and which in its report, submitted in September, 1948, recommended *inter alia* the allocation of 10 per cent. of the net profits for reserves, a return of 6 per cent. on paid-up capital *plus* reserves and the



sharing by labour of 50 per cent. in surplus profits in six industries as an experimental measure. The report is being considered by the Central Advisory Council. Various other measures were taken by the Government to improve labour welfare.

As regards the transport situation, improvement was particularly noticeable in respect of the despatches of raw materials and finished goods. The daily average coal loading in 1948 amounted to 4 per cent. higher than in 1947, the movements in textiles and cement showing an improvement of 18 per cent. and 9 per cent. respectively.¹

1949-50.

The recovery in industrial production, noticed in 1948, continued during 1949, most of the industries recording further improvements with the important exceptions of cotton textiles and jute manufactures.

The recovery in steel, cement and coal was appreciable. As compared with the preceding year, the output of finished steel rose by 9 per cent., cement by 35 per cent. and coal by 6 per cent. to a record figure of 31.5 million tons. The output of electric energy improved. The other industries which showed increases include paper, aluminium, electric motors, transformers, electric lamps, bicycles, refractories, sulphuric acid, superphosphates and caustic soda.

The progress in recovery has been attributable, in the main, to a distinct improvement in transport and in labour situation. Improvement in the capacity of rail transport enabled the removal of the control on priorities. The tonnage lifted by Indian railways during the first nine months of 1949-50 was 15.5 per cent. higher than in the corresponding period of the preceding year. Better labour-management relationship since the Industrial Truce of December, 1947 was reflected in the decline in the number of man-days lost on account of strikes from 78 lakhs in 1948 to 66 lakhs in 1949. The corresponding figure for 1947 was 166 lakhs. Other factors assisting recovery in production included the installation of additional production units in some industries (*e.g.*, cement and superphosphates) and the expansion of the existing units in some others (*e.g.*, electric

¹ *Reserve Bank Report on Currency and Finance, 1948-49.*



motors, diesel engines, heavy engineering and sulphuric acid) and certain governmental measures, such as a further liberalisation in the depreciation allowances granted to industry in the computation of the income assessable to income tax, exemption from excise duty of any additional output of sugar by a factory in the 1949-50 season over the preceding season, the grant of coal freight concession from 1st December to cement, paper and cotton textile industries in the form of a rebate of 12½ per cent. and the grant in November by Government of a loan of Rs. 5 crores to the Steel Corporation of Bengal and the Indian Iron and Steel Company.

An important development in the field of Government's policy relating to industries was the action taken to fix in November, 1949 provisional production targets for 1950 in respect of major industries. Targets for 1950.

The following Table shows the Industrial Targets for 1950.¹

Name of the Industry		Target for 1950-51	As percentage of output in 1947
A. INVESTMENT GOODS :			
1. Coal	...	30 mln. tons	104
2. Steel	...	2.2 mln. tons	80
3. Aluminium	...	3,816 tons	109
4. Diesel Engines	...	685 (units)	438
5. Chemicals			
(a) Sulphuric acid	...	60,000 tons	166
(b) Superphosphates	...	50,000 tons	100
6. Power alcohol	...	2.2 mln. gall.	46
7. Refractories	...	175,000 tons	128
8. Glass	...	70,000 tons	144
B. CONSUMER GOODS :			
9. Cloth (piece goods)	...	3,816 mln. yards	118
10. Sugar	...	925,000 tons	130
11. Paper and pulp	...	93,000 tons	118
12. Cycle tubes and tyres	...	7.5 mln.	80
13. Motor tubes and tyres	...	1.6 mln.	63

For coal, cotton textiles and heavy engineering industries, working parties consisting of representatives of industry, labour

¹ *Economic Weekly*, January 26, 1950.



and Government have been appointed to make recommendations for improvements regarding production, quality, labour efficiency, rationalisation and reduction of costs. In pursuance of the policy of providing further incentive to industry, the Central Budget for 1950-51 allowed substantial tax relief and other concessions to industry. The Industries (Development and Regulation) Bill of March, 1949, which had aroused considerable opposition, has since been amended by the Select Committee to eliminate some of its more restrictive features.

While the improvement noticed in 1948 has been generally well maintained in 1949 the output in two major industries, namely, cotton textiles and jute manufactures continued to be depressed. The output of cloth and yarn dropped from 4,319 million yards and 1,448 million pounds, respectively, in 1948 to 3,904 million yards and 1,359 pounds in 1949 or a fall of 9.6 per cent. and 6.1 per cent., respectively. The output of jute goods showed a sharper decline from 1,091,000 tons to 946,000 tons or a fall of 13.3 per cent. The figures for the first quarter of 1950 show that the downward trend continues. The major factor affecting both industries has been the continued shortage of raw materials, particularly since the Indo-Pakistan trade dead-lock from September, 1949. In the jute industry, member mills which had registered complements of more than 220 looms remained closed for a week each month between 11th July and 5th December, 1949, by a decision of the Indian Jute Mills Association. Thereafter, they functioned on all working days of the month, though the working hours per week were reduced from 48 to 42½. As regards the textile industry, a few mills had to close down, wholly or partly, due partly to the non-availability of cotton. To relieve the situation, a zonal system of distribution of cotton to mills was introduced on 19th November, 1949, and the movement of cotton from one zone to another was prohibited except under a licence. In addition to augmenting internal production of cotton, imports of larger quantities from overseas were allowed and the necessary foreign exchange was allocated to import 10 lakh bales of cotton during the half-year ending June, 1950. Actual imports during the period amounted to 6.4 lakh bales.¹

¹ *Report on Currency and Finance, 1949-50.*

✓ The Industries (Development and Regulation) Bill, which Industries Bill. embodies the more important principles underlying the Government's policy in regard to the control of industries, is expected to be introduced in the November session of Parliament as amended by the Select Committee appointed in March, 1949. The Bill provides for the creation of a Central Industries Board which will exercise certain powers in regard to the regulation of 27 industries, listed in a schedule to the Bill. In the case of these industries, existing undertakings will be required to get themselves registered; any new undertaking or any expansion of an existing undertaking of a nature virtually amounting to a new undertaking, will not be permitted without a prior licence taken in that behalf from the Central Industries Board. The issue of licences will be subject to certain conditions including location and minimum standards in respect of size; the Board may revoke, amend or vary a licence in cases of failure to take effective steps to establish the undertaking within the stipulated time. ✓ The decisions of the Board will, however, be subject to appeal to the Government. With reference to the scheduled industries, the Board will exercise the functions and powers now exercised by the Controller of Capital Issues. The Central Government will have the power also to inspect any industrial undertaking.

✓ In respect of ten of the scheduled industries, the Central Government will be endowed with additional powers. Subject to certain conditions, the Central Government may (1) cause an investigation to be made by the Board, (2) issue, on receipt of the Board's report, directions to the industrial undertaking concerned, and (3) in case of non-compliance of such directions, take direct control if the Board so recommends. ✓ The circumstances under which Government may cause an investigation to be made into the affairs of any undertaking include a substantial fall in production, a marked deterioration in the quality of the goods produced, an undue rise in prices, or the need to conserve resources of national importance. On the recommendation of the Board, the Government may prohibit the undertaking from resorting to any action or practice which might reduce its production capacity or economic value, or control the prices of its output or regulate its distribution. In emergencies,



this may be done even when the undertaking concerned is under investigation ; in cases of non-compliance or of evidence that the undertaking is being managed in a manner detrimental to the public interest, the Government may, on a decision taken in this behalf by the Board, take over direct control of it. These additional powers, or any of them, may, in consultation with the Board and after approval by a resolution in Parliament, be made applicable to any one of the scheduled industries, or any industry may be transferred from one category to the other.¹

2. ACHIEVEMENT AND FUTURE POSSIBILITIES²

Since the Industrial Commission of 1916-18 reported, considerable development has taken place in the industries of India, but there still remain appreciable gaps to be bridged before India can claim to have become one of the industrialised countries of the world.

A brief account of the present position and future possibilities of some of the large-scale industries is given below :

Steel.

Tatas have increased their steel production both in total tonnage and the varieties of products. Their ingot capacity is now a million tons per annum and they produce plates, rails and structurals, wheels and axles, sheets, mill products, sleepers, tin bars and billets. The Steel Corporation of Bengal, which is an associate company of the Indian Iron & Steel Co., came into production just before World War II. Their ingot production is of the order of 250,000 tons per annum. The Mysore Iron & Steel Works produce about 60,000 tons of ingot steel per year.

Considering that the world production of steel is of the order of 140 million tons per year, India's share of production is obviously still very small. For a country of the size and population of India, if she desires to have a tempo of industrial activity comparable with the industrialised countries, she should aim at producing and consuming steel to the extent of 20 million tons per annum in the near future. Even then her *per capita* consumption of steel will be much less than that of

¹ *Report on Currency and Finance, 1949-50.*

² *A Note on Industrial Progress* prepared by Dr. J. C. Ghosh, lately Director-General of Industry and Supply, Government of India.



pre-war Japan. Endeavour should be made to produce in India not only larger quantities of tonnage steel, but also different types of alloy and special and engineering steels and tubes needed for various industries.

Tatas now produce Ferro-Manganese for their own consumption. Ferro-Silicon is produced at Mysore. A large number of ferro-alloys, however, are still imported.

Ferro-Alloys.

The separation of Burma from India affected India's resources of non-ferrous metals, as the larger mines producing copper, lead, zinc, tungsten and zinc, etc., are now in independent Burma. The most important development in India in the field of non-ferrous metals has been the production of copper in Bihar by the Indian Copper Corporation at the rate of 6,000 to 7,000 tons of fire refined copper at Ghatsila from the ore in the Singhbhum copper belt. The Indian Copper Corporation converts its copper into brass sheets for manufacture of hollow-ware. Two small units are producing aluminium from Indian bauxite. The present installed capacity is 4,000 tons, while the maximum production was 3,490 tons during 1949. During the war, antimony was produced from Chitral ore. With the partition of the country that source of ore is now lost and the smelter which is in Bombay has to depend on imported ore. During the war some prospecting work was done at Zawar where lead-zinc sulphide ore is available. Only a small quantity of lead is smelted at present, but with further development it is expected that this mine will be able to meet India's needs for lead and later on, part of her zinc requirement. Significant developments have taken place in the non-ferrous metal fabricating industry. Almost all brass and copper sheets required for hollow-ware are now produced in India from imported copper and zinc. Several Rolling Mills came into existence during the war and have been renovated and expanded after the war. Extrusion presses have also been installed to produce lead pipes and copper and brass sections. All the bare copper wire required for manufacture of copper cables is also produced in the country from imported copper. Alloys, such as gunmetal, bronze and white metals, are entirely produced in the country from imported virgin metals.

Non-Ferrous Metals.



But the fact still remains that the important industrial non-ferrous metals are either not produced in the country at all, or if produced the production is insignificant. Only about 12,000 tons of non-ferrous virgin metals are produced at present out of a total requirement of about 120,000 tons per annum. The dependence of this country on imported metals is a serious matter and unless Government recognises this immediately and takes active steps quickly it will be impossible at the time of an emergency to keep the defence forces supplied with indigenously manufactured defence implements. The gap to be filled is in the direction of production of copper, lead, zinc, tin and antimony in the country from indigenous raw materials as well as conversion and utilisation of scrap materials for recovery of non-ferrous metals. Indian entrepreneurs have neither the resources nor the economic stability to venture into a basic industry such as the primary manufacture of metals. It, therefore, falls on the Government not only to plan but to finance such basic industries. Once this major gap in the production of basic non-ferrous metals begins to be bridged the fabricating industries which make the metals ready for use of the engineering industries will automatically follow.

Mechanical
Industries.

Since the report of the Industrial Commission of 1916-18, considerable progress has been made in the field of mechanical industries. These industries received a great impetus during the World War II. Indian factories now manufacture: Diesel Engines, Pumps, Bicycles, Hurricane Lanterns, Sewing Machines, Incandescent Lamps, Razor Blades, Steel Furniture, Agricultural Implements, Welding electrodes, Steel Belt Lacings, Clocks, Chains, Mathematical Instruments, Pins, Hardware, Small Pipeline Valves, Fire Extinguishers, Bolts, Nuts and Rivets, and a host of other items which were not manufactured in 1916-18. The structural steel fabricating industry also made immense strides and turned out during the war steel structures of the order of 100,000 tons per annum. The new Howrah Bridge was built entirely by Indian industry. Shipbuilding also has progressed and 4 ocean-going steamers of 8,000 tons capacity have already been built. Road rollers have been made in India and in future there will be no need to import them.

India can also manufacture its normal requirements of wagons



and a large portion of its requirements of rail-coaches. Spun Pipes, R.C.C. and Hume Pipes, Cast Iron Pipes are also new made indigenously in large quantities. Government has already put up a factory and so also Tatas for the manufacture of Locomotives. Motor vehicles are now imported for assembly in the country and manufacture of components on a small scale has commenced. It is hoped that the scheme approved by Government, according to which 80 per cent. of the components of automobiles will be manufactured in India in course of five years, will be duly implemented.

Factories are also now being set up or nearing completion for the manufacture of Boilers, Ball Bearing, Piston, Piston Rings, Cylinder Liners, Typewriters, Umbrella Ribs. However, there is still room for expansion of mechanical industries and also room for more items among which are Tractors, Heavy Earth Moving and Road-making Machinery, Concrete Mixers, Bull Dozers, Aircraft, Wire Ropes, Belt Conveyors, Automobile parts such as Carburettors, Sparking Plugs, Panel Instruments, Fuel Injection Equipment for Diesel Engines, etc. The progress in mechanical industries would have been quicker if India produced sufficient steel, Pig Iron and Coke. It is expected that if the indigenous production of steel and non-ferrous metals increased, the mechanical industries will expand in their wake.

Factories
nearing
completion.

The report of the Indian Industrial Commission of 1916-18 observed: "Electrical plant and equipment are still, therefore, all imported, in spite of the fact that incandescent lamps are used by the millions and electric fans by tens of thousands." The Commission recommended, therefore, that specially among the industries which required immediate establishment, production of essential articles as magnetos, incandescent lamps, etc., should have priority. The first serious beginning in electrical industries in this country was made in the twenties of this century with the establishment of an electric cable factory in Tatanagar and an electric fan factory in Calcutta. Factories for the manufacture of incandescent lamps, dry batteries for flash lamps, small electric motors and distribution transformers were established in the thirties.

Electrical
Plant and
Equipment
Industries.

The first real fillip to the expansion of electrical industry in the country was, however, provided during World War II, when consideration of acute shortage of shipping space and other strategic factors were present. Under this stimulus, a considerable expansion of old plants and installation of new factories took place. The number of organised electrical undertakings at the end of World War II was about 60 as against 20 before that war.

Value of
electrical
goods.

The sales value of all electrical goods produced in India during 1949 is estimated at Rs. 14 crores. Simultaneously with the expansion of the above industries, ancillary industries for the processing of components and raw materials for electrical industries also commenced in the country. Notable among such industries are manufactures of glass-shells for electric lamps, black copper rods for electric cables, electrical steel sheets and stampings for electric fans and motors and containers for motor car batteries. It is estimated that out of our requirements of approximately Rs. 10 crores worth of raw materials in 1950, about 4 crores will be available in India.

There is, however, still a large gap to be bridged. Our present annual requirement of electrical goods is estimated to be Rs. 35 to Rs. 40 crores, of which a major portion consists of heavy electrical power plant like hydro-electric and steam-turbine generating plant, large power transformers and condensers, heavy industrial motors, switch gear and control gear, electrical traction equipment, dry core paper insulated telephone cables, wireless transmitters and other radio equipment, paper insulated power cables, house-service meters, etc. etc. Schemes have already been drawn up for the manufacture of the above items. Government have decided to set up a factory for the manufacture of dry core telephone cables and have entered into an agreement with Messrs. Standard Telephone and Cables of U.K. for the establishment of a factory at Chittaranjan. With regard to Heavy Electrical Power plant and Heavy Switch-gear, technical surveys of the possibility of starting a manufacturing establishment in India under Government ownership were conducted by three firms of well-known foreign consultants and their detailed project reports are now under scrutiny. Private factories are being encouraged to plan and



execute schemes for the manufacture of other electrical goods not covered by state plans.

Before 1939, there was no organised machine-tool industry in the country, although some factories were manufacturing simple machine-tools for their own use by copying imported ones. During the last war, a beginning was made for the establishment of indigenous machine-tool industry on an organised scale. Government encouraged some factories to start manufacture of simple machine-tools and the following are being successfully manufactured in the country: (a) Simple Centre Lathes, (b) Pillar Drilling Machines, (c) Shaping Machines, (d) Planing Machines, (e) Hack Sawing Machines, (f) Power Presses and (g) Double-ended tool grinders. The country's annual demand for machine tools is estimated at about Rs. 8 crores and the present indigenous capacity can produce about R. 1 crore. To fill this gap between the estimated demand and the indigenous capacity, Government have decided to set up a State-owned machine-tool factory in the near future. When this factory comes into full production, the country will be almost self-sufficient.

Machine tools and cutting tools.

There was no organised factory for the manufacture of small tools in the country before 1938. A factory had started the manufacture of Twist Drills, Reamers and Cutters just before World War II. The capacity of this factory was increased during the war and there are at present 4 firms, who are manufacturing Metal Cutting Tools in an organised manner. There are also projects by private industrialists for the manufacture of Engineering Files, Taps and Dies, Chasers and production is expected to start during this year.

There was no organised industry for the manufacture of Grinding Wheels before 1939. A beginning was made during the war and the country is now almost self-sufficient in this item.

An important gap yet to be bridged is the manufacture of Tungsten Carbide and Carbide-tipped cutting tools, and of graphite crucibles.

Since the Industrial Commission reported, some progress has been made in the production of industrial machinery. The

Industrial Machinery.

types of Textile Machinery now being successfully made in India are: (a) Ring Frames, (b) Power Looms and (c) Dyeing and Bleaching Machinery. More factories are under construction for the manufacture of Textile Machinery.

Certain types of Jute Mill Machinery, such as (a) Hessian Looms, (b) Sacking Looms, (c) Weaving Looms, (d) Jute Softeners and (e) Cup Winders are now being manufactured indigenously, but a large amount of Jute Mill Machinery still has to be imported.

Certain types of Tea Processing Machinery, such as (a) Tea Rollers, (b) Tea Cutters, (c) Tea Breakers and (d) Stock Extractors are also being manufactured indigenously, but a considerable portion of our requirements is still imported.

Decorticators, Disintegrators, and Oil Expellers are now being manufactured in the country, as also Rice, Flour and Dal Mills. Alcohol Plants are also being manufactured in the country but most of the complicated chemical plants still have to be imported from abroad.

Although the Steel Castings Industry has been set up in India, mechanised Cast Iron foundries and forging shops and heavy welded fabricating shops are still needed in the country for developing the manufacture of Heavy Industrial Machinery. India at present imports industrial machinery to the value over Rs. 75 crores a year. Urgent steps should be taken to remedy this situation.

Defence
equipment.

India is lamentably backward in the capacity to manufacture Defence Equipment, such as Tanks, Aircraft, Submarines, Destroyers, etc. During the next ten years controlled developments should take place of engineering industries with a view to have capacity for the manufacture of defence items by these new Engineering Factories in case of an emergency.

Hindustan
Aircraft,
Bangalore.

The Hindustan Aircraft Factory, Bangalore is a Government concern and is working mainly as an overhaul, repair, assembly, and conversion depot for the R.I.A.F. and Civil Airlines. It has, in addition, undertaken the assembly and manufacture of Prentice Trainer Aircraft for the R.I.A.F. under an assistance arrangement with the Percival Aircraft Company.

A Design and Development Section was added to the factory in 1948-49 and is being rapidly expanded. Work on the design



of one Primary, one Basic and one Advanced trainers is in progress.

India consumes about 2.5 million tons of petroleum products per year. The consumption of aviation and motor spirits now amounts to 600,000 tons. This consumption will increase rapidly if there is no restriction on supply. India produces only 10 per cent. of her petroleum requirements from the fields in the frontiers of Assam. This is an extremely unsatisfactory position. A scheme is under consideration to produce synthetic petrol from inferior grades of coal. A survey has been undertaken which has revealed that large deposits of suitable types of coal are available for exploitation for this purpose. India, more than any other country in the world, should be interested in the development of the synthetic petrol industry as she has plenty of coal but practically no mineral oil. Petroleum products.

The Indian production of coal in 1949 reached about 30 million tons. Most of the coalfields, however, are located in West Bengal and Bihar areas which produced about 82 per cent. of the total. The question of distribution of coal from the north-eastern India to other parts, therefore, raises problems of great complexity. The Railways, however, have now risen to the occasion and despatches of coal from the coalfields to consumers have been fairly satisfactory. About 600,000 tons of coal are exported every year from Calcutta port to overseas countries. Coal.

The largest industries of India, however, are the Cotton and Jute textiles. In 1944, India produced 1,680 million lbs. of cotton textile yarns and 4,800 million yards of cotton cloth. Under the Cotton Textile Expansion plan about 2.76 million spindles will be added in the next 5 years to the existing capacity of 10 million spindles in the textile industries. The raw cotton necessary for feeding these cotton mills is produced to the extent of only 30 lacs of bales in India. Attempts are being made to increase production of cotton in the Indian Union. The total requirements of cotton in our mills for export and other purposes is of the order of 45 lacs of bales and until the internal supply reaches the figure, every attempt has to be made to obtain raw cotton by import. India has developed a very valuable export trade in cotton cloth which Government is Textile industries.



anxious to encourage. Accordingly, the export duty of 10 per cent. has been withdrawn with effect from 1st June, 1949.

Silk.

About 20 million yards of silk cloth were woven in 1948, the raw yarn being obtained mostly from indigenous sources.

Blankets and woollen manufactures.

Indian mills produced 30 million lbs. of woollen goods in 1945. The peak production in 1941 was 1.2 million tons. More than 50 per cent. of the raw material has to be obtained from Eastern Pakistan. Attempts are now being made to secure the requirements of Indian Jute Mill industry from expanded production of jute in India itself.

Jute manufacture.**Plantation industries
Tea.**

Tea production in 1948 was 541 million lbs., of which about 420 million lbs. were exported and the rest consumed internally. The industry is now managed by a Central Tea Board which has been created under the Central Tea Board Act of 1949.

Coffee.

The normal coffee crop in India is estimated to be 18,000 tons. The export trade is almost disappearing because of the domestic consumption and the higher price for the Indian coffee. It is intended to maintain connection with the foreign market by exporting 2,800 tons of coffee during 1949-50. The Indian Coffee Board which has been constituted under the Indian Coffee Market Expansion Act of 1942 controls the production, sale and exports of coffee.

Rubber.

The average annual production of raw rubber in India is about 16,000 tons. This is much less than the requirement of indigenous rubber industries, which is estimated to be about 21,000 tons. The deficit is met by import. The Indian Rubber Board has been constituted under the Indian Rubber Production and Marketing Act of 1947. Its chief function is to promote the development of the rubber plantation industry so that the production at least meets the demand of Indian industries and the cost of production of Indian rubber does not become greater than the world price for the same.

Food Industries of India.

The principal food industries of India are sugar and hydrogenated oil. The optimum production capacity of the existing factories in India for sugar is 1.25 million tons and the normal production is about a million ton. Government have accepted the recommendation of the Tariff Board that the protection which this industry enjoyed for the last 18 years should now



be removed and that a revenue duty only of Rs. 6 per maund of sugar should be levied.

The number of factories manufacturing hydrogenated oil has increased from 24 in 1948 to 34 in 1949; and on the basis of the present progress it is estimated that the annual production will soon be reaching 180,000 tons per year. A quantity of 10,000 tons has been allowed for export to overseas countries and an additional quantity of 20,000 tons has been permitted to be exported to Pakistan.

Hydro-
genated oil
(*Vanaspati*)

The present need of salt in the country is 2.5 million tons on the basis of the average per capita consumption of 14 lbs. as against the world average of 30 lbs. The Salt Controller has prepared plans to make the country completely self-sufficient in salt by the end of 1951 and also to effect an all-round improvement in the quality suitable for human consumption, as well as to supply the needs of the industries. As a result, the production of salt between January and June of 1949 has reached the figure 1.7 million tons.

Salt.

The pre-war production of sulphuric acid was of the order of 26,000 tons. This was increased in the war period to 59,000 tons by expansion of the production of the existing plants, by the installation of more chambers and by the erection of some indigenously fabricated chamber plants. There are now 40 firms which can produce about 150,000 tons of sulphuric acid in 43 units. Of these, 11 are contact process units, mostly installed in the post-war period. Four units are under erection, which will give an additional capacity of another 30,000 tons. With this increase in production of sulphuric acid, has followed a concomitant increase in the by-products of the sulphuric acid industry, *e.g.*, nitric acid, hydrochloric acid, aluminium sulphate, sodium sulphate, alum, copper sulphate, magnesium sulphate and ferrous sulphate.

Chemical
and allied
industries.
Sulphuric
acid.

With the cessation of hostilities and defence demands and with the installation of increased capacity, the surplus of sulphuric acid has now to be utilised for the manufacture of superphosphates, a vital fertiliser for paddy and sugarcane. The pre-war production of superphosphates was a few hundred tons per annum. At present, capacity exists for the production of 90,000 tons of superphosphate per annum and with the expansion

Super-
phosphate.

schemes now in hand, it is expected that by the end of 1950, the production will reach the target figure of 100,000 tons per annum. The Government now purchase all superphosphate at a fixed price. This has helped considerably in increasing indigenous production.

Ammonium sulphate.

The importance of ammonium sulphate as a fertilizer is well known. The pre-war production was of the order of 25,000 tons per annum. The Government of India decided that ammonium sulphate should be produced by the State on a large scale. A Commission was appointed in 1945 to report on the possibility of manufacture of ammonium sulphate in India. As a result of the recommendations made by this Commission, it was decided to start the production of ammonium sulphate at Sindhri, with a capacity of 350,000 tons per annum. This factory is nearing completion. There are two other units producing synthetic ammonia, one at Mysore and the other at Travancore, with an aggregate capacity of 56,000 tons. The production of sulphate from the ammoniacal liquors of the coke-ovens is 22,000 tons.

**Alkalies.
Caustic soda,
soda ash
and the
by-products.**

Caustic soda, soda ash and the by-products were not produced in India during the pre-war period. Production during the war was 3,000 tons of caustic soda, 40,000 tons of soda ash, 4500 tons of bleaching powder and 3,000 tons of liquid chlorine.

**Bleaching
powder and
liquid
chlorine.**

India's requirements of soda ash are about 120,000 tons per annum for her various industries. The present installed capacity is 54,000 tons. The chief difficulty in bridging this gap between production and domestic consumption is that of obtaining industrial salt at a reasonable price. The ideal location for the soda ash industry is naturally the coalfields which are situated a long way off from the western coast, where cheap sea-salt is available or from the salt-beds of Rajputana. The cost of transport is the principal limiting factor in the development of the soda ash industry.

India's requirements of caustic soda are 70,000 tons per annum, of which the soap industry consumes 31,500 tons, the textile industry 19,250 tons, the paper industry 10,500 tons and other miscellaneous industries 3,700 tons. The present installed capacity is 13,500 tons. There are certain units which are producing their own requirements of caustic soda and this



capacity would come to another 3,000 tons. At present, 3 units are under erection, which will give an additional capacity of 10,000 tons.

India has an installed capacity of 6,400 tons for the production of liquid chlorine. This is more than sufficient to meet all internal demands. Difficulties inherent in long distance transport, however, stand in the way of increased production of liquid chlorine. India produces 5,160 tons of bleaching powder and plans for expanding the capacity are in hand.

Liquid chlorine.

The problem of finding an outlet for the surplus chlorine is hampering the expansion of the alkali industry. During the war, recovery plants were installed at Hirapur and Tatanagar and the production figure of 2 million gallons of benzene (and 1 million gallons of toluene) was reached. The utilisation of this benzene for the production of D.D.T. is one of the many ways in which chlorine can be utilised; and some firms are contemplating manufacture of D.D.T. Recently a firm has planned the production of high test hypo-chlorite.

Bleaching powder.

There was no bichromate industry in the pre-war period. The setting up of this industry during the war was necessitated by shipping difficulties, which cut off supplies from abroad and by the heavy demands for khaki dyeing. India's production capacity now is 3,000 tons per annum and the domestic consumption is only 1,000 tons. We have a large exportable surplus and considerable quantities have been exported abroad.

Bichromate.

Photographic chemicals are another line of new production set up in war-time. The production established before the war was uneconomic, but technical improvements have now been made. The process has been entirely modified, with the result that the quality now compares favourably with that of the imported product.

Photographic chemicals.

The present production capacity of soap is 263,000 tons and that of glycerine is 3,000 tons per annum. Five firms have installed glycerine recovery plants.

Soap.

India has been producing matches to meet all her requirements and also caters for the needs of the neighbouring countries to a limited extent. During the war, the industry was faced with a complete shut-down for want of the important chemicals. One of these was potassium chlorate which is

Matches.



required to the extent of 1,800/2,000 tons per annum. Its production has now been established with a capacity of 2,000 tons. The match industry has expanded phenomenally during recent years. At present, the country's aggregate capacity for the production of matches is 40 million gross boxes. We are also having a flourishing export trade in matches.

Phosphorus,
carbides etc.

The establishment of electro-chemical and electro-thermal industries is closely connected with the cheapness of electric power. It is expected that with the development of river valley projects, it will be possible to produce phosphorus, carbides, etc., at competitive prices, as has been done in the case of potassium chlorate. A plant for the manufacture of calcium carbide is in process of erection.

Rubber
goods.

The manufacture of rubber goods in India commenced in 1920, but the progress was slow. As a result of the stimulus received during the war, there are now 50 rubber factories and 70 factories processing latex. The most important items produced in India now are tyres and tubes for motor vehicles and bicycles, footwear, general mechanical goods, surgical requisites, toys, etc. India is now producing 16,000 tons of natural rubber per annum. Its consumption in the rubber processing factories has been estimated to be about 22,000 tons. At present, accelerators, vulcanizers and other rubber chemicals are imported. Large quantities of carbon black are required to be imported for this industry. The production of these rubber chemicals is an important necessity which should receive immediate attention.

Paper.

India's present production of paper is only 110,000 tons per annum. With the growth of literacy, it is estimated that the consumption of paper will increase considerably. The immediate target to be achieved by 1951 has been fixed at 200,000 tons. Six of the existing firms have decided to expand their capacity by another 50,000 tons. Four new units are coming into production by the end of 1950, with an additional capacity of 43,000 tons. It will, therefore, be seen the target fixed will be reached in time.

Leather.

The export of tanned hides and leather products gives India valuable foreign exchange. India's total foreign exchange in

this group of products has been in the neighbourhood of Rs. 19 crores per annum.

There has been very large development in the production of Plywood. plywood needed both for the fabrication of tea chests and also for commercial purposes. There are at present 45 firms producing nearly 80 million sq. feet of plywood for tea chests and about 20 million sq. feet for commercial purposes.

India has now about 40 major paint factories producing about 3,000 tons of paints, enamels and varnishes per month. Paints and Varnishes.

Considerable development has taken place in the production of plastic articles in this country. It is now necessary that the manufacture of moulding powders should be taken in hand early. At present, only one firm is producing phenol formaldehyde resin but not in sufficient quantity. There are now 40 firms producing plastic articles in India with an aggregate consumption of 3,000 tons of Polysterene and large quantities of other moulding powders. Plastics.

India is the world's second largest producer of cinema-films. It is extremely important that India develops the production of raw films. Co-operation of a Swiss firm has been sought for the production of raw films in India. Films.

One unit for the production of acetate rayon is under erection. Two other units will soon be going into production of rayon by the viscose process. Arrangements have been made for the production of carbon bi-sulphide, caustic soda and other chemicals required for keeping these plants in production. Rayon.

The rapid expansion in generation and transmission of electric power will require increasingly large quantities of high tension insulator, which are at present not produced in the country. A survey has been undertaken as to the possibility of producing high tension insulators in India. The scheme is now under examination. High-tension insulators.

India today has got an installed capacity for the production of 2.7 million tons of cement in 21 units. Three new factories are under erection and seven factories are expanding their capacity. It is expected that by the middle of 1950 we will have attained a target of 3.5 million tons. India's present internal demand is about 4 million tons and with the development of Cement.



various River Valley Projects, the consumption is expected to go up by another 2 million tons within the next few years.

Glass and
enamel
wares.

India manufactures both hollow glassware and sheet glass. The peak production in 1945 was 120,000 tons.

Indian industries also produced 8.5 million pieces of enamel ware in 1947.

Ceramics
and
refractories.

The peak production of ceramics was 25,000 tons in 1945 and of refractories was 189,000 tons in 1948. Indian refractories have a reputation for very high quality.

Synthetic
drugs and
dyes.

There are still important gaps in India's production programme. We are not producing synthetic drugs and dyes to any large extent. The imports are valued at about six crores of rupees. Government have agreed to sponsor the production of anti-biotics, like penicillin, in this country and also synthetic anti-malarials. No serious attempts have yet been made to produce synthetic dyes in India. India's present production of benzol from coke-ovens is 2 million gallons and that of toluene, 1 million gallons. This is a valuable national asset and every effort should be made to utilize this in producing synthetic drugs and dyes.

Medical
stores.

The war found India totally unprepared for the growing needs of the Army and her own civilian population. Before the war, only 13 per cent. of the various items of medical stores were obtainable in limited quantities. It became apparent that the pharmaceutical factories would have to play a very large part in supplying the ever-growing needs of the Army both at home and abroad. To encourage indigenous manufacture of medical stores, a Medical Stores' Supply Committee was set up in 1940 which undertook a survey of indian manufacturing capacity, investigated and recommended expansion, where necessary. The purchase of drugs and medical stores rose from 24 lakh of rupees in 1939-40 to Rs. 3.5 crores in 1942-43. By 1944, India was able to produce 70 per cent. of her requirements of all types of medical stores.

Alkaloids.

In the field of manufacture of alkaloids, considerable progress was made. The production capacity of strychnine rose to about 16,000 lbs. per annum, while very large production was established for Morphine, Ephedrine, Caffeine etc.

India produced vast quantities of hormones, such as Liver-Extracts, Adrenaline and Pituitrin. In the field of vaccines and sera, phenomenal progress was made and with the exception of a very few types, almost all civil and military requirements were produced locally. Thus, by 1944, India was able to produce 293 new items of medical stores.

India had one of the best Blood Transfusion Services in the world and the entire requirements of blood-transfusion, including plasma, were met from indigenous manufacture. This necessitated the production of special quality glassware which, at that time, was a closely guarded secret; but by persistent research, India was able to solve the problem of neutral glassware manufacture.

A rapid development of chemical and allied industries in India is being hampered on account of three factors:

Obstacles to development.

- (i) High cost of intermediate chemicals which have to be imported, as India does not produce these;
- (ii) Lack of confidence of the public in the quality of the products turned out in Indian factories;
- (iii) High cost of capital equipment from abroad and slow delivery period.

Many articles are being produced in India but at a much higher price than the world price. The Indian Tariff Board has investigated the cases of many of these industries and recommended tariff protection by increasing the import duty on corresponding articles from abroad. In some cases, this duty has been as high as 80 per cent. ad valorem, which the consumer has to bear. The consumers in many cases are other industries, whose cost of production consequently has gone up. It is to be remembered that the growth of trade associations, of price fixing and market share devices—the whole apparatus of protection, in fact, is inspired by nothing so much as by the desire to prevent the bankruptcy of the inefficient. The Indian industry has to steer clear of this pitfall. The growth of powerful trade associations should not be designed to restrict competition among the manufacturers in respect of quality and limit improvements. This warning is particularly appropriate as there is a tendency in some industries to fix limiting targets of production, which may be misused to perpetuate inefficiency



and consequent exploitation of the consumer. It is hoped that the Control of Industries Bill at present before the Parliament will act as a deterrent to such abuses.

3. FISCAL COMMISSION'S VIEWS.

In the light of the fundamental objectives of economic policy as laid down in the Constitution of India and the Resolution of the Government of India, dated April 6, 1948, the Fiscal Commission lays down the following chief aims which the economic policy in India should have in view:

Chief aims of Economic Policy.

Firstly, avoidance of unemployment or under-employment; Secondly, sound, efficient and fuller utilisation of natural resources; Thirdly, steady and progressive increase in standards of productivity, elimination of sub-standard conditions of labour and creation of incentives that will stimulate enterprise; Fourthly, special measures for development of agriculture (including animal husbandry) on modern scientific lines for the production of food and essential raw materials for industry (cotton, jute, etc.); Fifthly, special measures for the development of cottage and small-scale industries on individual or co-operative lines; Sixthly, ensuring that large-scale industrialisation occupied prominent place in any programme of development as capital equipment and modern techniques can make notable contribution to increases in production, the productivity and standards of living in this field 'a mixed economy' is indicated; Seventhly, introduction of a diversified economy which would lead to a better utilization of the diversified talents of the community and diversified human and natural resources and will enable the population to lead a fuller and richer life than would otherwise be attainable.

Forms of assistance.

The Commission reviews the industrial development of the country during the last thirty years and gives an appraisal of of the achievement and the failure. They suggested that in regard to large-scale industries, State policy should primarily be as follows:

(i) Various forms of assistance that the existing organised industries will require. Here the role of the State will be to arrange for such necessary supplies and services as cannot be obtained without State assistance and to ensure their equitable

distribution, so that production may be maximised and quality ensured.

(ii) All such industries in the nationalised sector as may be considered desirable will be established under the control and management of the Government.

(iii) Encouragement will be given to the establishment of such key and basic industries as may be needed to be promoted and fostered.

(iv) Facilities necessary for the establishment of other industries in the private sector will be given.

The Commission emphasises the role of the State in the development of large-scale industries.

In regard to the pattern of industrial development, as visualised in the Industrial Policy Statement, the Commission draws a broad picture of development.

As regards location of established industries, it is not possible to change the location as they have been pre-determined by the circumstances of their establishment and existence. In the case of other industries, which are more mobile, various factors should, in the opinion of the Commission, be taken into account. These will include: Locations.

(1) security factor; (2) sources of raw-material and power; (3) labour supply; (4) communication and transport facilities; (5) distance from the consuming centres; (6) the existence of related industries, etc.

It is not easy in practice to decide on the most suitable location of a particular industry, and it may be wise to regulate the locational pattern of large-scale industries through negative measures, *e.g.* avoidance of congested or industrially over-specialised unhealthy areas. The principle of decentralised production on a complementary basis should be kept in view in regard to the question of large-scale industries vis-a-vis small-scale industries

On the question of pace of industrialisation, the Commission visualises a half-way house between the highly capitalised industries of U. S. A. and U. K. and India's predominantly rural economy.¹ As regards the practicable way of financing Pace of industrialisation.
Finance.

¹ The Commission reject the suggestion of a programme like first two Five-year Plans of the U.S.S.R. on two grounds, namely, (1) the necessary



large-scale industrialisation, the Commission suggests two measures, namely, (a) to obtain foreign capital and/or (b) to increase the volume of domestic saving and investment. The State policy should also be concerned with: (i) various forms of assistance that the existing organised industries will require. Here the role of the State will be to arrange for such necessary supplies and services as cannot be obtained without state assistance and to ensure their equitable distribution, so that production may be maximised and quality ensured, (ii) establishment, under the control and management of the Government, of all such industries in the nationalised sector as it may decide on; (iii) encouraging the establishment of such key or basic industries as need to be promoted and fostered in conformity with the desired pattern of industrial development; (iv) giving facilities necessary for the establishment of other industries in the private sector.

Small-scale
and
cottage
industries.

The Commission recommend the establishment of small-scale industries in rural areas, which will not only provide a source of supplementary income to agriculturalists but also create a new avenue of gainful employment to the excess labour now employed in agriculture. ✓The rural industries that can be most economically developed are those primarily dependent on the produce of agriculture (including forest) and the manufacture of utility-articles of common consumption that do not call for intensive physical effort or the exercise of a high degree of skill or complicated technical processes. The absence of electric power in the villages will, for many years, compel the rural industries to depend on other forms of motive power, *e.g.*, steam or oil engines. ✓Small-scale industries in urban areas possess the advantages of large-scale production with those arising from their small size, which makes possible their supervision and control by the proprietors themselves. As a source of employment to the middle-class people, the social importance of these industries is out of all proportion to their relative strength in the industrial sector and the State should take special interest in their promotion and development. ✓The case for cottage

equipment will have to be imported, which will increase the burden on the foreign exchanges and (2) will increase the inflationary potential.—*Report*, pp. 124-125.



and small-scale industries rests fundamentally on the employment-aspect. In conclusion, the Commission emphasize the fact that a positive and dynamic policy should be followed both at the Centre and in the States continuously directed to the problems of production, finance and marketing that confront the cottage and small-scale industries all over the country so that they may be enabled to provide the volume of employment envisaged the Report.

Dynamic policy for small-scale and cottage industries.

4. COTTAGE INDUSTRIES

In Part I of this book, the role of cottage and small industries in the economy of India and their advantages and disadvantages, as compared with those of the large-scale industries, have been discussed. For a long time past, the cottage and small industries were neglected by Government as well as the people. But now their importance in an agricultural country like India is being increasingly recognised, particularly from the standpoint of employment and the material and moral well-being of the people. It is being realised that, while the technical conditions of manufactures do not always enable cottage or small-scale industries to avail themselves of the economies of large-scale production, the disadvantage may be partially offset by the relatively low cost of distribution. It is being appreciated that cottage and small-scale industries, owing to their methods of production and their close connection with the local markets, enjoy a competitive advantage in their ability to adjust the nature and quality of their output to the local demand. Further, it is being more fully understood that, if "the private cost" and "social cost", *e.g.*, those relating to housing, public utilities and social security, are taken into account, the gap between the two categories of industries becomes considerably narrow. Lastly, interest in these industries is being evinced, in view of the fact that their expansion is likely to take less time than the development of large-scale industries and thus they can more easily become good exchange-earners.

Past neglect.

Advantages.

The question engaged the attention of the Industries Conference which met at Delhi in December, 1947, when a resolution was adopted requesting the Government of India to investigate how far and in what manner these industries could be

Industries Conference Resolution.



co-ordinated and integrated with large-scale industries. The Government of India accepted this recommendation. The Industries Conference also recommended that the Government should establish a Cottage Industries Board for the fostering of small-scale industries. The Industrial Policy Statement of 1948 gave a strong lead to the matter when it re-affirmed the following words of the Industries Conference: "Cottage and small-scale industries have a very important role in the national economy offering, as they do, hope for individual, village or co-operative enterprise." The Government, shortly afterwards constituted a Cottage Industries Board, comprising representatives of States and some organizations of cottage industries. The functions of the Board are¹:

Cottage
industries
Board.

- (i) to advise and assist the Government on the organization and development of cottage industries ;
- (ii) to examine and advise how cottage and small-scale industries can be co-ordinated with large-scale industries ;
- (iii) to examine the schemes of the Provincial and State Governments, for the promotion of cottage and small-scale industries and to assist in co-ordinating them ;
- (iv) to advise the Government on the marketing of the products of cottage and small-scale industries in India and abroad.

Board's
Recom-
mendations.

The Board held its first meeting on December, 13 and 14, 1948 and adopted 20 resolutions and made various recommendations to the Central and Provincial Governments. The most important of these resolutions are:

- (i) There should be a Cottage Industries Board in each Province and State, an adequate number of administrative and technical staff to tackle the work of development of cottage and small-scale industries and adequate funds for the execution of the various schemes of development.
- (ii) The integration of large-scale and small-scale and cottage industries should be brought about and specific fields of production reserved for each. The Government should encourage these groups of industries to work to their mutual advantage.

¹ *Industry and Supply Bulletin*, April-June, 1949.

- (iii) The demands of the various Provinces and States for standardized machines, tools and equipment for cottage industries should be assessed and met either by indigenous manufacture or import.
- (iv) A Central Cottage Industries Emporium should be established by the Central Government to offer marketing facilities to cottage and small-scale industries and Provincial and State Governments should follow suit.
- (v) Steps should be taken by the Central Government to increase export of cottage industry products and to expand foreign markets for them. With that end in view, a Special Committee for cottage industry products should be appointed, the services of the Trade Commissioners abroad should be utilized and finished goods should be standardized as far as possible.
- (vi) Transport facilities for the movement of raw materials and finished products of cottage and small-scale industries should be provided. These industries should be placed on a par with large-scale industries in respect of freight as well.
- (vii) A Central Training and Research Institute, specially for cottage industries, should be established to train instructors and master-craftsmen.
- (viii) Handloom industry, being one of the most important cottage industries, should have a standing sub-committee to look after its interests.
- (ix) Special technical officers should be appointed to look after the various aspects of the development of cottage and small-scale industries.
- (x) The Central Government should provide adequate funds for the development of cottage and small-scale industries and a Finance Committee should be appointed to operate this fund.
- (xi) Steps should be taken to achieve self-sufficiency in food and clothing through cottage industries.

The Ministry of Industry and Supply accepted all the recommendations of the Board and are trying to implement them either independently or in co-operation with the State Governments. A Central Cottage Industries Emporium has already

Central
cottage
industries
emporium.

been established. As cottage and small-scale industries are the responsibility of the State Governments, they have been requested to take action in the matter.

Fiscal Commission's suggestions.

The matter has received the serious attention of the Fiscal Commission which has just published its report. In the opinion of the Commission, the problems of cottage and small-scale industries are broadly as follows:—

First, the problem of developing the existing village crafts ;

Secondly, the problem of developing the village industries, which now provide a source of supplementary income to the agriculturists ;

Thirdly, the problem of developing the existing urban crafts ;

Fourthly, the problem of establishing such new industries in rural areas as can provide gainful employment to the surplus man-power now engaged in agriculture ;

Fifthly, the problem of developing the existing small-scale industries in urban areas. //

The needs of the village craftsmen are simple and well known. Plans for their rehabilitation should include measures necessary for improving and facilitating the technique of production, supply of essential raw materials, fuel and up-to-date tools and equipments. Village industries are closely connected with the economy of villages, as they provide part-time occupation for the agriculturalist.

The requirements of the urban craftsmen are different. Here the problem is largely one of increasing the competitive efficiency of their manufacturing and marketing methods, and the development of the internal and external markets. The products turned out by these craftsmen comprise utility goods, semi-luxuries and luxuries, but their requirements are more or less the same, namely,—

- (i) Supply of raw materials and other ingredients ;
- (ii) Supply of modern samples and designs ;
- (iii) Supply of modern tools and implements, including those needed for finishing processes ;
- (iv) facilities for the training of artisans and their children in the manipulation and use of up-to-date machinery and equipment ;



- (v) technical assistance for the improvement of manufacturing processes ;
- (vi) quality control—to ensure that quality is uniform and according to specifications ;
- (vii) credit facilities both for purchase of raw materials and the marketing of their finished products ;
- (viii) Organization of marketing, both at home and abroad.

5. FEDERATION'S VIEWS

In a 39-page printed Memorandum, the Federation of the Indian Chamber of Commerce, has outlined some of the problems facing about 50 industries in producing to their full installed capacity and the remedies for removing these difficulties.

Impediments in the way of production.

In his Foreword to the Memorandum, Mr. Tulsidas Kilachand, President of the Federation, states that the problems and remedies are not new and the memorandum only seeks to focus the attention of those interested in increased industrial development of the country. While the role of planning in economic regeneration is fully realized, he says that full utilization of installed capacity is of equal importance.

Memorandum by Federation of Indian Chambers of Commerce.

Referring to suggestions that fall in production could be traced in certain industries to "faults in management," the Federation says: "It is obviously difficult to say as to how far this is correct, because it cannot be in the interest of management itself to reduce production or not to strain every nerve to maintain the highest efficiency."

The Federation appeals to all concerned to consider it as their duty to try their utmost to remove all cases of such complaint and trusts that the business community would rise to the occasion in the present moment of crisis.

Among other chief obstacles against increased production, mentioned by the Federation, are: Delay in grant of import licences to actual users of raw materials, indeterminate relation of tariff policy with the balance of payments position, "marked preference" by certain Central and State Government departments to place orders with foreign concerns, uncertainty in regard to the role of private enterprise in the economic life of the country,



existing tax structure, and "the rather speedy pace of social legislation which acts as a serious drag to production."

Suggesting the establishment of State Finance Corporations¹ to supplement the efforts of banking institutions in providing credit facilities to industries, the Federation says: "In order to cater to the financial requirements of industries in regard to credit for medium-term and long-term duration, a time would seem to have come when the question of providing such facilities through the existing commercial banks will have to be considered by the Reserve Bank of India which has the responsibility of advising banks regarding restrictions on loans and advances."

Need of
credit
facilities.

Giving an example of what it calls "eloquent testimony" to the effect of the Government's nationalization policy, the Federation says that the Electricity (Supply) Act of 1948, under which the purchase price that has to be paid by a State Government for acquiring an undertaking is limited to the cost or book value of the assets, has stood in the way of credit facilities being extended by banks to electrical undertakings.

Sugar and cotton textiles are given by the Federation as examples of two industries in whose cases fixation of an unremunerative price by controls had sapped the manufacturers' initiative to increased production.

In regard to low productivity of labour, the Federation feels that, while the reduction in number of man-days lost in 1949, as compared to those lost in 1948 and 1947, seem to indicate that the industrial truce resolution had borne some fruit, the recent strike wave, originating in the "illegal strike" in Bombay textile industry, threatens to belie expectations in regard to improvement in the labour situation.

Suggesting an inquiry into the causes of low productivity by Indian labour, the Federation says that the inquiry should include replacement of the present system of bonus payment by a system of incentive bonus.

¹ On the 13th December, 1950, the Finance Minister introduced in Parliament the State Financial Corporations Bill which seeks to enable State Governments to establish State Financial Corporations. The intention of the Bill is that State Corporations will confine their activities as far as possible to medium and small scale industries and will as far as possible consider only such cases as are outside the scope of the Industrial Finance Corporation.

The following are some of the points made in the Memorandum in respect of the important industries:

Iron and steel industry: Production of crude steel in the first five months of 1950 has been 108·5 per cent. of that in 1946. Fall in labour productivity—16·30 tons per worker in 1948-49 compared to 24·36 tons in 1939-40 at the Tata plant and 31 tons in 1948-49 compared to 51 tons in 1942 at the SCOB plant, coupled with the rise in earnings, is one of the causes. A definite price policy for a reasonably long period in the case of indigenous steel should be fixed. Before new steel plants are set up by the Government in Madhya Pradesh and Orissa, financial assistance should be given to existing units to increase production.

Major Industries.

Coal industry: Unlike others, it faces a problem of over-production due to fall in demand for low-grade coal from Pakistan. Labour is still adopting "go slow" tactics and is undisciplined. Some Government collieries operate at loss and at high cost. The question of economizing operating costs or closing down of high-cost Government collieries should be settled soon.

Sugar industry: Production in 1949-50 is only 980,000 tons compared to maximum of 1,200,000 tons in 1943-44 and 1,001,000 tons in 1948-49. Lack of unified policy between States, coupled with a free market for gur and Khandsari sugar, were the two most important causes for the fall in production. Reasonable rates should be fixed for crystal sugar while prices of gur and Khandsari should be brought down.

Cotton textiles: The recent textile strike in Bombay has upset production. The fall in production in early months of 1950 was due mainly to non-availability of indigenous cotton at ceiling prices fixed by Government and lag in arrival of imported cotton. Compared to world prices, Indian cotton prices are lower. The artificial fixation of cotton textile prices at low level is not in the interests of the country. Ceiling prices of cloth must be fixed at reasonable level. Though there was a case for increase, Government forced the industry to voluntarily reduce prices by 4 per cent. in 1949.

Jute: The industry is facing a crisis due to the uncertainty of raw jute supply from Pakistan. A normal flow of raw jute



from Pakistan to India can alone solve the immediate problem of short supply of jute but a long-term solution lies in increasing Indian production of raw jute.

Cement: Proposals for setting up a common marketing organization are afoot. Production of new units will decline if unremunerative prices are fixed compulsorily or even voluntarily for new units.

Chemicals: The most potent cause, leading to disturbance in the production programme, is the "vacillating" import policy of the Government. Heavy imports of soda ash in 1949 is an example in point. Special concessional freight rates should be provided for the chemical industry. Urgent high level steps should be taken to secure for the sulphuric acid industry adequate supplies of sulphur from the U.S.A., as that country is understood to have suddenly refused supplies owing to the war situation.¹

6. NATIONAL WEALTH AND INCOME

The wealth of a country is the accumulation of the savings from its annual income. The national income is derived from industrial as well as agricultural production. Both categories of production are important, but in the more advanced countries the greater part of its income is derived from its industry than from its agriculture.

No reliable statistics.

No reliable statistics relating to the national wealth or the national income of India are available. The average farm production per head was calculated at Rs. 40 seventy years ago. In the early eighties of the last century Sir Evelyn Baring (afterwards Lord Cromer) estimated the average *per capita* income at Rs. 27 per head per year; the Famine Commission of 1880 put it at £2. In 1903, Sir Robert Giffen calculated the *per capita* income at about £2 or Rs. 30 per year, and this figure was accepted by the Government of Lord Curzon. But William Digby and Dadabhai Naoroji put it at an even lower figure. The data put forward from time to time for the calculation of the national income are not quite dependable. Recent enquiries into the question of national income have given widely divergent results. The department of Agriculture in

Estimates
by Robert
Giffen.

Lord Curzon
William
Digby
Dadabhai
Naoroji.
Enquiries
in Madras.

¹ P. T. I. Report, dated October 17, 1950.



Madras calculated the average income in the presidency at Rs. 100 in 1921. In Bombay the net *per capita* annual income was estimated at Rs. 100 for urban localities and Rs. 75 for rural areas. Mr. Findlay Shirras, in 1922 put the average income per head as high as Rs. 116. There were other authorities who at that time were inclined to bring the figure down to Rs. 60. The average income fell heavily during the economic depression of 1929-33. According to Mr. Shirras the *per capita* income came down from Rs. 126 in 1924 to Rs. 58 in 1932. Mr. V. K. R. V. Rao's estimate was that the income of British India for 1931-32 accounted to Rs. 16,891 millions and the *per capita* income amounted to Rs. 62. Sir M. Visvesvaraya estimated the average income per head in 1934 to be Rs. 55.

The national income of the Indian Union Provinces in 1946-47 as published by the Economic Advisor to the Government of India gave in broad outline the net national income produced within the country at factory cost. Though there was an increase in the national income from Rs. 204 *per capita* in 1945-46 to Rs. 228 in 1946-47, the increase was not real as allowance had to be made for a rise in the general level of prices by about 12.5 per cent. The total net national income in 1946-47 stood at Rs. 55,800 million. This figure was for the whole of the Indian Union Provinces as constituted after partition and did not include the States merged into them subsequently.

There was also an increase under the head 'Agriculture, Animal husbandry, Forestry and Mining' from Rs. 20,090 million in 1945-46 to Rs. 23,980 million in 1946-47. Agriculture alone fetched a net income of Rs. 17,700 million as compared with 14,950 million in the previous year.

The income of the urban area worked out to Rs. 21,70 million for the working population of 18.8 million as compared with Rs. 34,830 million in rural areas for a working population of 87.1 million. Thus the income per earner for urban and rural populations for the year 1946-47 was estimated at Rs. 1,121 and Rs. 401 respectively.

Provisional estimates for the year 1948-49 indicated that the national income was about Rs. 69,680 million and the *per capita* income Rs. 272. Judging from the number of gainfully



employed persons the national income of the Indian States was estimated at one-third of that of the Indian Union Provinces.¹

Economist's
estimate.

The Eastern Economist calculates the total income of India (including Pakistan) for the year 1939-40 to be Rs. 19,343 millions and for the year 1947-48 (India only) to be Rs. 39,421 millions. It estimates the *per capita* income for 1939-40 at Rs. 67 and for 1947-48 at Rs. 160 after taking the cost of living into consideration. The eastern Economist observes: These figures do not describe what is convenient to call the wealth of India although they describe something of its reverse which is its poverty. It adds: "There is a superstition—it would do it too much honour to call it anything else—that our people—particularly agriculturists—are better clothed and fed than they were before the war. The figures given above will show that this cannot be the case. Indian people are getting poorer and all the sacrifices made by the war have given us the Sterling Balances but little positive fruit in any other direction."

Collin
Clark's
view.

As regards the national incomes of the industrially advanced countries, Dr. Collin Clark gives figures which are many times higher than those of India. He says, "Most unexpected is the extent to which the four great industrial countries predominate in the world's economics. They enjoy not far short of half of the world's entire income of goods and services, though only containing 300 millions of population; in conjunction with the four smaller creditor countries, they enjoy more than half of the world's entire income. The U.S.S.R. and Japan are both unique and each has a substantial fraction of the world's income. In China and British India, though average real incomes per head are very low, the populations are so great that the aggregate incomes are substantial".² Since World War II

¹ *Indian Trade Bulletin*, July, 1950.

² Collin Clark gives the following figures:

WORLD INCOME, 1925-34.

Milliards of L.U.

The four Great Powers:

U.S.A.	65.6	} 119.0
Great Britain	...	...	21.9	
Germany and Austria	...	...	19.0	
France	...	...	12.5	



considerable changes have taken place in the incomes of different countries, but India's income has not increased.

A Commission was appointed in 1949 by the Government of India to investigate the national income of India as well as the *per capita* income. The report of this Commission is expected to be published in 1951.

Commission
on National
Income
appointed.

7. CONCLUSION

If rapid industrialisation is to be achieved, certain fundamental points must be insisted upon. In the first place, the Government must not only inspire confidence in the minds of the industrialists but also do their best to remove all the existing impediments to the growth of industry and afford as many facilities as are necessary. They should hold the balance even as between labour and capital and treat both in a fair, just and sympathetic manner. Secondly, both capital and labour must shed their narrow and selfish outlook and cultivate a broad and enlightened view of their duties as well as their rights. Both these parties should realise that increased production is the only source from which their increased remuneration can be obtained. Thirdly, every effort should be made to bring about

	Milliards of L.U.
<i>Other creditor countries :</i>	
Canada, Holland, Switzerland, Ireland	10.5
<i>Other industrial European countries :</i>	
Sweden, Denmark, Norway, Iceland, Belgium, Spain, Czecho- slovakia	13.3
<i>Wealthy debtor countries :</i>	
Australia, Newzeland, Argentine, Uruguay, Chile, Brazil ...	13.8
<i>Poorer European countries :</i>	
Yugoslavia, Greece, Finland, Hungary, Poland, Latvia, Italy, Estonia, Portugal, Roumania, Lithuania, Albania	16.6
U.S.S.R.	17.5
Japan	8.1
<i>Other partially developed countries :</i>	
Egypt, Algeria, Tunis, Morocco, South Africa, Turkey, Palestine, Syria, Cyprus, Philippines, Hawaii, rest of Central and South America	7.3
China	22.7
British India	15.0
Dutch Indies	2.6
Rest of Asia, Africa and Oceania	8.0

World Total ... 254.4

The Conditions of Economic Progress by Colin Clark, pp. 55-57.



mutual understanding and good-will between the management and the work-people and between producers and consumers. Fourthly, the well-being of the entire population, and not the advancement of the interests of any section of it, should be the end always to be kept in view. Lastly, the cults of incompetence and corruption, which now prevail in the Government as well as among all the sections of the community, must give place to the creeds of efficiency and honesty.

CHAPTER XXIX

TRADE PROBLEMS

1. TRADE POLICY.

THE Charter granted to the East India Company by Queen Elizabeth in 1600 A.D. marked the commencement of commercial relations between India and England. When, two and a half centuries later, the Company assumed ruling authority over India, it still remained a trading corporation. Naturally, the commercial interest of Britain dominated the trade policy of the Company. This policy continued for a long time even after the assumption of India's administration by the British Crown. It was only in the last phases of British rule in India that some modifications took place in this policy.

East India Company a trading body.

After the achievement by India of freedom her foreign trade policy should now be so directed as to help the development of the country's industry. This idea of India's external trade as a handmaid to her internal development must guide our trade policy in future.

Before the Second World War, India's foreign trade policy was directed largely by her need to meet large Home Charges in Britain and the interests of Empire trade. This policy aimed at the creation of an export surplus.

Trade Policy before World War II.

During the war, India's foreign trade policy was conditioned by the over-all requirements of the war, and India became the most important supply base for war materials to the Allies. Imports naturally fell to a trifle while exports greatly expanded, resulting in the accumulation of large balances in England known as the Sterling Balances.

During World War II.

The formulation of an appropriate foreign trade policy for India, best calculated to subserve her needs of economic development both in the short period and the long period, such an attempt is complicated by several factors in the post-war situation, such as the partition of the country and the extremely critical food situation. While the partition of the country has

altered basically our position in respect of a number of industrial raw materials, such as jute and cotton, which now figure so prominently on the import list, the deterioration in food supply has imposed a new and unprecedented heavy strain, on our foreign exchange resources. As India hopes to attain self-sufficiency in both jute and cotton in a few years as well as in food, for which the target date is the end of 1951, the pattern of foreign trade is expected to undergo a further change at no distant date, and the formulation of a long-term foreign trade policy must take note of this important fact.

**Objectives of
Short-term
Policy.**

One principal objective of a short-term foreign trade policy for independent India will be to correct the present disequilibrium in our external trade resulting from an excess of imports over exports. The attainment of a short-term equilibrium is not, however, a policy, but only a process essential to the attainment of a policy. The more important objective of a short-term policy, as the Fiscal Commission states, will be to create conditions in which the current foreign exchange receipts of the country are sufficient to pay for the volume of imports considered necessary (i) to carry out a production plan based on the most efficient use of existing productive resources and plant capacities, (ii) in order to achieve a pre-determined programme of investment in essential replacements, re-stocking and essential new lines of manufacture and (iii) to maintain a pre-determined level and structure of current consumption.

The attainment of these short-term objectives pre-supposes the fulfilment of a number of conditions and the adoption of a variety of measures. One such measure is the husbanding and economic utilisation of foreign exchange resources. This indicates that the system of import control which was instituted during the war has to continue at least for some time to come. Steps must also be taken to maximise the earnings of foreign exchange in the short period. Devaluation of the rupee effected in September 1949 was expected to be a step in this direction. The bilateral or regional trade agreements which India has entered into with a number of countries in the last few years are also intended to help in achieving these ends by ensuring the supply of essential imports, such as food-stuffs, in exchange for exports, the supply of which is limited.

Also essential to the success of a short-term foreign trade policy as outlined above is the strengthening of the internal economy by checking and over-riding the inflationary tendencies which are now rampant. Alterations in the supply and demand conditions of internationally traded commodities may also be corrected by corresponding adjustments in the pattern of consumption and production. In actual practice, however, such structural adjustments are very difficult.

The objectives of a long-term foreign trade policy are defined by the Fiscal Commission as follows:—

Objectives of
Long-term
Policy.

(i) to direct the short-term developments along channels which will eventually enable the country to consolidate its position in these fields;

(ii) to promote the pattern of import trade by means of which India can obtain the foreign resource necessary for the development of its agriculture and those cottage, small-scale and large-scale industries which it may wish to develop according to a pre-determined plan of development; and

(iii) to promote a pattern of export trade (i.e. in volume, composition and development) that will enable India (a) to pay for its essential imports and (b) to specialise in those exports in which it may have a comparative advantage and (c) to direct its export trade to those markets in which it will have the least difficulty in maintaining its hold against competition from other countries.

The development of the long-term foreign trade policy will have three stages. The first stage will be characterised by a heavy import of capital goods, and the processing of an increasing proportion of raw materials and stores for internal consumption. Both these factors will increase the strain on foreign exchange resources which will have to be met from accumulated reserves like the sterling balances or by foreign loans. Failing such sources, there will have to be stringent restrictions on the import of consumption goods. In the second stage, imports of capital goods will fall off, but the capital investment made during the first stage of development will begin to show results. Increasing national income will increase the demand for consumption goods which will be met partly from increased internal production and partly by higher imports. Consump-



tion will have to be, however, on a planned basis as otherwise demand would very likely outstrip supply leading to an accentuation of inflationary conditions.

The third stage will be characterised by increasing importance of secondary industries and a rapid fall in imports. India is also expected to develop new export markets with the establishment of this stage and this will enable the country to receive specialised imports. These imports will not compete with home industries but make internal consumption varied in character and therefore maximise total satisfaction.¹

Recent
Policy
faulty.

Unfortunately, the trade policy which has been pursued by the Government during the last five years has been marked by vacillation, lack of freight and want of imagination, with the result that frequent changes have taken place in regard to the regulation of the import as well as the export trade. Such changes have not only hampered industrial development and stood in the way of the normal trade expansion, but have also proved injurious to the economic well-being of the people.

2. POST-WAR TRENDS IN INDIA'S FOREIGN TRADE.²

World War II changed the course of India's foreign trade to a considerable extent. During the post-war period the partition of the country in August 1947 and the devaluation of the rupee in September 1949 were the two major developments, which had far-reaching effects on its trade. The changes brought about by these factors in the pattern of exports and imports is clearly seen from the Table which gives the percentage shares of the three main groups of commodities in the total trade.

Changes in
the pattern
of trade.

Although, as the Table shows, there was a continuous increase in the value of exports as well as imports from year to year under the main groups, the total pattern of trade has changed considerably during the post-war period. In the case of exports there was an upward trend in the share of manufactured articles and a downward trend in that of raw materials; in the first group, viz., food, drink and tobacco, however, the

¹ *Report of the Indian Fiscal Commission.*

² An Article by V. N. Murti contributed to the *Reserve Bank Bulletin*, July, 1950.

percentage share declined during the two post-war years 1946-47 and 1947-48, and went up in the subsequent two years. The post-war period witnessed a marked change towards larger imports under the first group (viz. food, drink and tobacco), while the third group (viz. manufactured articles) showed a trend in the opposite direction. In the case of the raw materials group, there was a slight downward trend in the two years 1946-47 and 1947-48, but after the partition the share of imports increased considerably.

TABLE

PERCENTAGE SHARES OF THE THREE MAIN CLASSES IN TOTAL VALUE.

	of Exports		of Imports.	
	1938-39	1949-50	1938-39	1949-50
Class I Food, Drink and Tobacco.	24.0	24.5	15.8	20.7
Class II Raw Materials ..	45.0	22.0	21.8	29.7
Class III Manufactured articles.	29.3	53.0	60.9	48.8
Total	98.3	99.5	98.5	99.2
Rest	1.7	0.5	1.5	0.8
Grand Total ..	100.0	100.0	100.0	100.0
Value (in crores of Rupees).	1923 (163)	1945 (460)	1923 (152)	1945 (592)

Important changes took place in the relative importance of commodities of export and import. Exports were confined to a few commodities of major importance. In 1948-49 nearly 66 per cent. of the exports was due to five commodities, namely, jute manufactures, tea, cotton manufactures, raw jute and raw cotton. A significant change noticed during 1949-50, was that 'cotton manufactures' occupied a prominent place next to 'jute manufactures' and was equal in importance to tea. Exports.

As regards imports, the following facts are of interest. Imports.
(i) There was an even distribution during the pre-war year

1938-39 among the various important items like machinery of all kinds, oils, cotton manufactures, grain, pulse and flour, metals and ores and raw cotton, all these together covering about one-half of the import value; (ii) while during the post-war year 1946-47, the item grain, pulse and flour itself occupied one-fourth of the value of imports, the next one-fourth being covered by the three items, viz. oils, machinery of all kinds and raw cotton, arranged in descending order of their importance. (iii) The same pattern continued in 1947-48 also. (iv) But the year 1948-49, the first year after partition, witnessed a slightly different pattern bringing raw jute also into prominence. The first four major articles of import here are grain, pulses and flour, machinery of all kinds, raw jute, and raw cotton, arranged in descending order of their importance and covering about one-half of the year's import value. (v) The latest year, viz., 1949-50, brings oils into prominence keeping back raw jute, as imports of this item have gone much below India's requirements owing to the trade deadlock between India and Pakistan.

It is also interesting to study at this stage the changes in the pattern of imports among the following five main categories, namely, (a) capital items, (b) producer materials, (c) food and drink (excluding liquors and tobacco), (d) mineral oils, and (e) consumer goods.

It will be noticed that imports of capital goods accounted for nearly 17 to 25 per cent. of India's imports during the three post-war years. These goods which were required for replacing worn-out machinery were also essential for increasing the country's productive capacity. There is no prospect, in the near future, of a reduction in imports on this account, as the country is not yet well-equipped for the production of such goods. Next comes the item, food, which had a high percentage after the war. As the Government of India are committed to a policy of self-sufficiency by the end of 1951 in this respect, it may be expected that India will not have to import much on this account in future. Producer materials are also as important as capital goods in order to increase the output of our industries. The textile mills of India require considerable imports of raw jute and medium and long staple cotton, and Pakistan has been the main source for these commodities. Demand for

Shares of
different
categories.

these raw materials continued to be the same till Partition and even increased after it. This may be expected to continue until, at least, India is able to produce a larger part of these requirements. Lastly, consumer goods which account for 20·8 percent of the total imports during the year 1949-50 consist of some items which are not essential in times of austerity. It is to be noticed that luxury goods accounted for 10·6 per cent., 9·0 per cent., 3·2 per cent. and 3·0 per cent. of the total imports during 1938-39, 1946-47, 1948-49 and 1949-50 respectively. The low percentages in the year 1948-49 and 1949-50 were due to the many import restrictions imposed by the Government on non-essential consumer goods.

The value figures of both exports and imports revealed a rising trend with an increasing unfavourable balance.

The export value showed an increase to nearly three times and the import value about four times the pre-war year, 1938-39. The enormous increase in the price-level of both the exported and imported articles accounts for most of this rise in values. It is, therefore necessary, for a proper appreciation of the trends in trade, to have index numbers of the volume of trade.

Increase in
export and
import
values.

The position may be summed up thus:

(a) In the case of exports:

(i) A significant change in the pattern of India's exports has taken place during war-time resulting in a fall in the share under the two classes of articles, *viz.*, food, drink and tobacco and raw materials, and an appreciable rise in that of manufactured articles. However, the volume of exports of even the manufactured articles, during the first few years after the war (until partition) remained below the pre-war level with a slight downward trend; the volume of total exports was stagnant at two-thirds the pre-war level.

Summary:
(a) Exports

(ii) Partition has changed the pattern especially in decreasing India's share of exports under raw materials while at the same time raising the share under manufactured articles.

(iii) There was spurt in the exports during the second half of the year 1949-50, i.e., after devaluation, from a more or less constant level witnessed during all the other post-war years. This was mainly owing to the high export, after devaluation, under cotton manufactures and tea. It is to be observed whether this

trend would be maintained in future. However, if the trade deadlock between Pakistan and India is satisfactorily resolved, raw jute might flow freely into India resulting in increased exports under jute manufactures which accounts for over one-third of our export trade.

(b) Imports.

(b) In the case of imports:

Pattern altered.

(i) The pattern of imports also has altered considerably during the war period resulting in a larger share under the group of commodities, viz., food, drink and tobacco, and a smaller share under manufactured articles, to the total value of imports. Not much change in the share of the second group, viz., raw materials is noticed. The grave situation arising out of scarcity in foodgrains has necessitated a large volume of imports. Immediately after the war, restrictions on imports of consumer goods were relaxed to check the inflationary situation in the country. But the shipping shortage stood in the way and so the effects of liberalisation of imports were not felt till about the middle of 1946. Meanwhile the internal food situation grew worse and India's balance of trade position also became acute. As a result O.G.L. VIII was suspended in March 1947 and import trade control was put into force. These frequent changes in Government's import policy were made mainly with a view to restrict imports of non-essential goods.

Result of Partition.

(ii) Partition has created new problems in respect of goods like raw cotton and raw jute, because the regions producing the bulk of these commodities went to Pakistan. Hence the share of raw materials to total imports has gone up during the two post-partition years.

Volume of imports.

(iii) The volume of imports which has been gradually increasing during the post-war period records a slight fall during the year 1949-50. This fall, which is the result of decline in imports under the two groups of commodities, viz., food, drink and tobacco and manufactured articles, may possibly be due to the effect of devaluation of the currency and the austerity in imports that the Government is scrupulously enforcing. If the self-sufficiency drive in food-grains initiated by the Government of India succeeds, the stringent conditions arising in respect of foreign currency may ease to some extent and the



financial position may improve to enable the prosecution of her many major projects.

(c) Both the export and import prices have risen high during the post-war period, the indices in both the cases remaining at a level nearly four times that of the pre-war. The rise in the case of export prices is, however, steeper than in the case of import prices. This difference in price levels resulted in a favourable (net barter) terms of trade to India.

Prices of both imports and exports high.

(d) Finally, it may be noticed that while export trade was stagnant, imports were increasing from year to year. This shows that the export drive policy to rehabilitate the internal economy, which succeeded so well in the U.K. and other European countries, has not shown any fruitful results in India. On the other hand, the heavy imports had to be financed from the accumulated sterling balances and when the balance of payments position between India and the U. K. deteriorated, recourse had to be taken for clamping stricter controls on imports in order to restrict the flow of non-essential goods.

Imports increased.

3. FOREIGN TRADE IN 1949-50.

India's foreign trade for the year 1949-50 reached an all-time record total of Rs. 1,043.23 crores which was more by Rs. 92.15 crores than in the previous year. Export of Indian merchandise improved by Rs. 54.02 crores from Rs. 416.03 crores in 1948-49 to Rs. 470.05 crores in 1949-50 or by 13.0 per cent. Imports too increased, but to a smaller extent than exports. They improved by Rs. 32.79 crores from Rs. 560.02 crores, or by 6.2 per cent. Re-exports rose from Rs. 7.29 crores to Rs. 13.16 crores. Total exports of Indian and foreign merchandise put together, amounted to Rs. 483.21 crores as against Rs. 423.32 crores in the previous year. The adverse balance of trade in merchandise amounted to Rs. 76.81 crores as against Rs. 103.91 crores in the previous year. In other words, the adverse balance declined by Rs. 27.10 crores.

Foreign Trade 1949-50.

All-time record.

Substantial increase in exports.

Smaller increase in imports.

Decrease in adverse balance.

Distribution of trade according to States shows that West Bengal's share declined while those of Bombay and Madras improved considerably. West Bengal's share in imports in 1949-50 was Rs. 140.8 crores as against Rs. 141.2 crores in the previous year, while those of Bombay and Madras were Rs. 314.0

Distribution by States.

crores and Rs. 91.5 crores as compared with Rs. 301.8 crores and Rs. 83.9 crores respectively in the previous year. In the export trade West Bengal's share declined from Rs. 267.7 crores to Rs. 254.6 crores, while those of Bombay and Madras improved from Rs. 77.1 crores and Rs. 78.5 crores to Rs. 109.2 crores and Rs. 106.6 crores respectively. In other words, Madras lost her second place to Bombay.

Exports.

Food articles.

Raw materials.

Manufactures.

Imports

Food articles.

Raw materials.

Manufactures.

Re-exports.

Out of a total of Rs. 470.1 crores, exports of food articles amounted to Rs. 112.6 crores or 14.0 per cent. In the previous year the share of this group was 11.2 per cent. The share of raw materials group amounted to Rs. 101.5 crores or 11.6 per cent. In the previous year, its share was 13.6 per cent. The share of manufactures was Rs. 244.1 crores or 52.0 per cent. which compares with 53.0 per cent. in the previous year.

Out of a total of imports of Rs. 560.0 crores, food articles amounted to Rs. 122.4 crores or 21.9 per cent. In the previous year the group formed 18.8 per cent. Raw materials group amounted to Rs. 144.2 crores or 25.0 per cent, which compares with 14.2 per cent. Manufactures declined from 296.4 crores in the previous year to Rs. 288.6 crores and 51.5 per cent as against 58.0 per cent. in the previous year.

Out of a total of Rs. 13.2 crores, re-exports of food articles, raw materials and manufactures amounted to Rs. 1.9 crores, Rs. 7.6 crores and Rs. 3.7 crores respectively as compared with Rs. 27 lakhs, Rs. 93 lakhs and Rs. 6.1 crores respectively in the previous year. Thus the share of raw materials increased to a phenomenal extent while that of manufactures declined substantially.

Details.

Exports.

Food articles.

As regards details, the food group exports increased from Rs. 87.3 crores to Rs. 112.6 crores. Spices increased to a phenomenal extent. There was a substantial rise in tea exports, the value of increase being from Rs. 63.6 crores to Rs. 72.0 crores. In quantity U. K.'s share declined slightly, but in value her share improved to a small extent. The U. S. A. increased her share both in quantity and value. Tea-export came next in importance only to exports of Jute and Cotton manufactures. There was a sizeable increase in tobacco, a small rise in cashew kernel.

In the raw materials group, there was a sharp rise in ground-nuts. The shares of the U. K., Switzerland and Netherlands increased substantially, while those of France and Italy declined. Export to Canada increased largely. Linseed exports rose sharply. The principal customers were U. K. and Australia. There was a spectacular rise in Manganese, the value of rise being from Rs. 1.8 crores to Rs. 5.3 crores. The U.S.A.'s share increased very largely. There was a substantial rise in the export of Mica. The principal country of export was U.S.A. Substantial rise was recorded in the exports of raw hides and skins. The shares of the U. S. A. and the U. K. increased considerably. The total of raw cotton export decreased to a considerable extent. But exports to the U.S.A. and Belgium improved. Exports to U.K., Netherlands, China and Australia declined substantially. Thus exports of raw cotton were canalised to the dollar and other hard currency areas.

Raw materials.

Raw jute exports registered a sharp decline both in quantity and in value. Exports to Belgium and Germany improved substantially, but exports to U.S.A. declined.

Raw wool exports increased to a substantial extent. The share of U.S.A. rose considerably when that of the U.K. rose to a greater extent. Exports of vegetable oils—ground nut, castor and linseed—decreased substantially.

In the manufactures group, exports of cotton manufactures have attained record levels. Straits Settlement increased her share very largely and became India's best customer. Other countries in order of importance were, Aden and Dependancies, Sudan, Kenya, Zanzibar, Faderated Malaya States, Australia, Burma and Arabia. There was a phenomenal rise in cotton yarn exports. There was a small rise in woolen manufactures. Exports of Jute manufactures declined sharply.

Manufactures.

Imports of grain, pulses and flour amounted to 99.5 crores by the sea-route, as against 73.23 crores in the previous year. But imports of good grains by all routes amounted to Rs. 107.89 crores, in 1949-50 as compared with Rs. 131.3 crores in the previous year.

Imports.

Food articles.

Oil imports, mostly mineral, increased substantially. The imports of mineral oil rose from Rs. 35.7 crores in value to Rs. 53.6 crores. Coconut-oil imports also increased considerably.

Oils.

Raw
cotton.
Machinery.

Straits Settlement was the principal supplier of coconut oil, Ceylon coming next. Raw cotton imports were slightly lower. Imports of Machinery of all kinds, were the highest in India's history amounting to Rs. 105.5 crores and forming the single largest item in import trade. These imports compare with Rs. 80.96 crores in 1948-49 and Rs. 59.13 crores in 1947-48. The principal items under the group were belting for machinery, bobbins, prime-movers, electrical machineries, agricultural machinery, boiler, metal working machinery, mining machinery, paper mill machinery, pumping machinery, refrigerating machinery, sewing and knitting machinery, sugar machinery, cotton textile machinery, jute textile machinery, and printing and lithographic presses. The principal suppliers of machinery were the U. K. (Rs. 64 crores), U. S. A. (Rs. 26 crores) Chekoslovakia (Rs. 3 crores).

Chemicals,
drugs, etc.

Imports of chemicals, drugs, and medicine declined considerably. Cutlery, hardware etc. declined slightly while import of dyes and colours, non-ferrous metals, papers and vehicles declined sharply.

Imports
from Com-
monwealth
Countries.
Relative
decrease.

The share of the Commonwealth Countries in India's import trade in 1949-50 was 46 per cent. as against 47 per cent. in the previous year. The share of foreign countries increased from 53 per cent. to 54 per cent.

Exports to
Common-
wealth
Countries.
Relative
Increase.

In the export trade, the shares of Commonwealth countries were 53.3 per cent. as compared with 51.4 per cent. in the previous year. Thus the share of foreign countries declined from 48.6 per cent. to 46.7 per cent.

Adverse
balance of
trade with
U.S.A.
declines.

Imports from the U.S.A. were valued at Rs. 87.9 crores as against Rs. 106.7 crores in the previous year, showing a decline of Rs. 18.8 crores. Exports to that country rose from Rs. 70.1 crores to Rs. 77.6 crores or by Rs. 7.5 crores. As a result of a fall in imports and a rise in exports the adverse balance against India in Indo-U.S. trade declined for Rs. 36 crores to Rs. 8.5 crores.

Principal
suppliers
of Indian
imports.

The principal suppliers of India's imports in 1949-50 were the U.K. (Rs. 149 crores) the U.S.A. (Rs. 88 crores), Egypt (Rs. 39 crores), Australia (Rs. 34 crores), Iran (Rs. 32 crores) and Japan (Rs. 21 crores).



The principal customers of Indian produce were the U.K. (Rs. 111 crores), the U.S.A. (Rs. 78 crores), Australia (Rs. 2.6 crores), Ceylon (Rs. 16 crores), Burma (Rs. 14 crores), Pakistan (Rs. 14 crores), Straits Settlement (Rs. 12 crores) and Canada (Rs. 11 crores).

Chief customers of India's exports.

The substantial expansion in foreign trade was obtained by various measures adopted by the Government of India during the last few years. Immediately after the advent of Independence, the Government of India began to take vigorous measures to expand the foreign trade of the country. This drive to develop external trade was continued with greater zeal during the third year of Independence by a variety of methods, such as conclusion of bilateral agreements with various countries, liberalisation of export control, participation in International Fairs and organisation of Indian Exhibitions abroad. Further, the scope of commercial publicity was widened, commercial representation abroad was strengthened, quality control of exports was introduced, foreign trade promotion was investigated by an expert Committee, and the question of State Trading as an instrument of trade development was enquired into.

Measures by which foreign trade was expanded.

In pursuance of the policy of expansion of foreign trade, bilateral agreements were concluded with different countries during 1949 for a period of one year. These agreements were intended to establish direct trade contracts where trade in the past had been conducted through entrepots; to secure essential and scarce goods, not otherwise obtainable; to promote exports of Indian goods; and, lastly, to facilitate trade with countries whose trade policies were planned or completely state-controlled. The countries figuring in these agreements were Switzerland, Hungary, Poland, Finland, Egypt, Czecho-slovakia, Ceylon, Western Germany, Austria and Pakistan. With the exception of Ceylon and Austria, all other agreements expired early in 1950. Fresh trade agreements were entered into with Western Germany, Switzerland, Czecho-slovakia and Pakistan. Besides, a mutual understanding to promote trade and shipping was reached with Sweden. Talks were in progress in Tokyo for a fresh trade agreement with Japan for the year 1950-51. Negotiations are also going on with Norway and France for the

Bilateral agreements.



purpose of developing trade with them. As regards Hungary, Poland, Finland and Yugo-slavia the question of entering into fresh agreements with these countries is under active consideration.

Export
control
liberalised.

In order to expand trade, consistently with internal requirements, expert control was further liberalised and the procedure simplified. In short, emphasis was shifted from export control to export promotion. Two noticeable developments took place in the field of export control: first, as many commodities as possible, although still on the control list, were being allowed to be exported without licences, and in the case of those commodities in respect of which licencing was still retained, the procedure was simplified; secondly, control was mostly centralised under the Commerce Ministry, all the items previously controlled by the Food Ministry and most of the items under the control of the Industry and Supply Ministry being transferred to the Commerce Ministry.

Participa-
tion in Ex-
hibitions,
etc.

During the year 1949 India participated in three important World Fairs, namely, International Women's Exposition in New York, British Industries Fair and Paris International Trade Fair. It was also decided to participate in the forthcoming Canadian National Exhibition, Toronto and the Chicago Fair. Besides, wholly Indian Exhibitions were organised from time to time in select countries. Permanent Show-rooms *cum*-Emporiums have been recently started, one at New York and the other at Bankok. Another step to promote foreign trade was to open new trade offices at ten centres, *viz.*, Burn, Prague, Rome, Brussels, Vienna, Baghdad, Manila, Dajakarta, Aden and Wellington. Indian commercial representatives were stationed at 29 centres as against 10 before August, 1947. Proposals were also under consideration for opening trade offices at Vancouver, Stockholm and Hongkong.

Export
Promotion
Committee's
recommen-
dations im-
plemented.

Steps were taken during the early months of 1950 to implement the recommendations of the Export Promotion Committee set up last year for stepping up exports. As for quality control, it has existed in regard to tobacco and *sun*n hemp. In regard to manufactured goods, standards were introduced, with a view to popularising them with foreign countries. The Committee appointed in October, 1949 to enquire into the



possibility of establishing a State-owned or State-sponsored organisation for handling sections of the foreign trade of India finished its work and submitted its report.

In the field of export control the policy of greater and still greater liberalisation was pursued. Control was exercised to safeguard against excessive exports of essential commodities, particularly the raw materials in respect of which the supply in the country was short, and to ensure directional canalisation in order to earn hard currency. The procedure for export licencing was simplified. In September, 1949, after the devaluation of the rupee, the Government assumed power to impose or enhance export duties on vegetable oils, oil seeds, *Vanaspati*, shellac, tobacco, raw jute and jute manufactures in order to check the possible rise in local prices. Cloth was derationed in the middle of 1949 and an annual quota was fixed for exports.

In regard to import control, it was tightened from May, 1949 onwards in order to correct the adverse balance of payments position. In that month the O.G.L. XI, which permitted without licence a large number of imports from soft currency areas was cancelled and replaced by a much restricted O.G.L. XV. In July the scope of the O.G.L. was further restricted by excluding certain items. Even this restricted O.G.L. XV was cancelled in August and replaced by O.G.L. XVI which permitted only capital goods and essential raw materials. The present policy is not to allow any importation unless it satisfies the test of essentiality. All imports which are licenced after satisfying the test are subject to monetary ceilings. The policy was one of strict watchfulness, having regard to the need for importing only the essential quantity of food grains, the capital goods which were required for the development of the country's economy and the essential raw materials needed for industries. This policy was rigorously adhered to in the import control programme for the half-year January-June, 1950, and is also being generally followed in the half-year July-December, 1950.

As the balance of payments position has improved during the last six months the Government of India have now decided to permit the free import of certain raw materials essential for the maintenance of industrial production and certain other goods required for maintaining essential supplies in the country

Import
control
tightened.

Import
restrictions
slightly
relaxed.



provided that they were shipped on or before the 31st December, 1950. An Open General Licence, No. XX, has accordingly been issued. This Open General Licence consists of two schedules. Schedule 'A' contains a list of goods imports of which are permitted without licences from all countries except South Africa and schedule 'B' contains a list of goods the import of which is permitted freely from soft currency countries only. The principal items covered by the Open General Licence are:

Schedule 'A'. Schedule 'A' (from any country in the world except South Africa)—certain specified non-ferrous metals, ball- and roller-bearings, graphite and carborrandum, crucibles, textile chemicals, whole milk for infant feeding, and milk foods for infants, tallow, cocoanut oil, penicillin, chloromacytin and insulin, fire bricks, mercury, hand-sewing needles and sewing machine needles, X-ray films, sulphur, wood pulp, newsprint, electro-medical apparatus, scientific and surgical instruments.

Schedule 'B'. Schedule 'B' (from soft currency countries only)—iron or steel electrodes, aluminium circles, conveyer belting wattle extract, wattle bark and other barks for tanning and dyeing and tanning substances, stearine, cinematograph films not exposed, streptomycin, cork manufactures, free wheels, chains, spokes, nipples and tugs for cycles, explosives, and cigaratte paper.¹

4. STATE TRADING.

Formerly, no participation in trade and industry.

State participation in the economic life of the people has in recent years been pressed forward along two main lines, viz., nationalisation of industries and state trading. In democratic countries before the thirties of the present century the state took little direct part in actual production and distribution of wealth and mainly exercised certain powers of supervision and control over private traders and manufacturers who were directly responsible for these functions. It created and maintained conditions for the smooth functioning of the self-regulating mechanism of the price system, prevented growth of monopolies, checked the adoption of restrictive practices by businessmen, and enacted and enforced equitable labour laws. The

¹ *Indian Trade Bulletin*, Independence Number, August 15, 1950.



Great Depression of 1929-33, however, brought about an important change in the prevailing conception of State functions, and intervention by the State in the economic sphere began to be advocated as an anti-cyclical measure.

Change during Great Depression and World War II.

(It was during the Second World War that the advocates of nationalisation and of State trading found the most favourable conditions for the support of their view-points. The War was fought on a scale which required the total mobilisation of the national resources through an elaborate system of controls and rationing. Foreign trade fell off to a trickle, and diversion of production to meet an expending volume of war-needs brought about acute shortages in consumers' goods as well as in industrial raw materials. Under such circumstances, it was felt necessary to institute strict control over both production and distribution of essential commodities. As war-caused scarcities tended to disappear and a buyers' market emerged, the case for State trading ceased to be indisputable.

The claim that State trading in the form of centralised purchase leads to cheaper buying rests on unverified and presumably untenable grounds. Government purchases are, moreover, liable to be motivated by political considerations with the result that purchases may not always be made from the cheapest market. The Government as a buyer is not also always in a position to drive a hard bargain as is often done in purely commercial transactions in which each party takes the maximum advantage of the technical position of the market at the given moment. Buying or selling requires special training and experience which is different from the equipment of permanent officials nurtured in the civil service tradition.

Advantages claimed for State trading.

Centralised purchases are not likely to be cheaper. Even such advantages would entail a heavy price in the shape of a large sacrifice of consumers' choice. The advantages would, moreover, depend upon the quality of the personnel which takes charge of the trading operations of the Government. Inefficiency and liability to corruption, both of which characterise commercial departments of Government, would nullify the advantages, meagre as they are.

Probably the change brought about by the administrative machinery which he was not accustomed to but there are countries who have proved it more economic.

In October 1949, the Government of India appointed a seven-man Committee on State Trading under the Chairmanship

Committee on State Trading.



Recommendations.

of Mr. Panjabrao Deshmukh. After going into various aspects of the question the Committee submitted a unanimous Report in which it approved of state trading in principle, and specially in the field of international trade. The main recommendations of the Committee were therefore confined to the spheres of import and export trade. The Committee also recommended the setting up of a special machinery for carrying on the state trading activities of the Government. The machinery consists in a state-sponsored State Trading Corporation with an authorised capital of Rs. 10 crores and an initial capital of Rs. 2 crores. 51 per cent. of the share capital of the Corporation should be owned by the Central Government and the balance shall be offered to the State Governments and private enterprise. While existing State Trading operations should be continued, and strengthened in one or two directions, further extensions would be only gradual, and would take effect after an examination of each case on its merits by the State Trading Corporation itself after it comes into existence. The immediate task of the Corporation would therefore be quite limited in character, and it would in the first instance take over from the Central Government their commercial functions in respect of import of food-grains, fertilisers, steel, East African cotton, and also such other functions as are necessary to implement the barter agreements concluded by the Government. The Corporation should in addition be given monopoly of the export trade in coal and short staple cotton. It would also undertake export trade in the products of cottage industries on a pioneering basis, as initially private enterprise in this line would not be paying. When a proper market has been created abroad for the products of cottage industries, the Corporation would curtail its activities and encourage private enterprise to enter the field. The Corporation should advise the Government from time to time how far State Trading should be extended or withdrawn from any commodity in national interest. The Corporation would not be itself free to extend its activities without Government approval. The Corporation may also act, whenever required, in the capacity of either a principal or an agent for direct purchase or sale by any foreign Government in the Indian Market. At the request of Indian traders, the Corporation may also undertake

on their behalf and at their risk negotiations with foreign traders.

The Committee on State Trading also expressed their views about the desirability of state trading in certain specific commodities. In regard to coal, as already mentioned, the Committee recommended that state trading should continue. Their recommendations relating to some other specific commodities were as follows:—(a) raw jute—no state trading is recommended, but the Indian Jute Mills Association should adopt a system of centralised buying; (b) non-ferrous metals—The desirability of re-introducing state trading should be examined by the proposed Corporation; (c) Jute manufactures, Shellac and Manganese—The question of state trading should be examined by the Corporation after it has gained some experience; (d) tea and mica—state trading is not recommended at the present stage and (e) Sugar—The question of state trading will not arise until internal production increases sufficiently to leave a surplus.

State trade
in specific
commodities.

It is thus evident that state trading, as envisaged by the Committee, is limited almost wholly to the sphere of foreign trade and no state trading in the sphere of internal trade is contemplated at least in the initial stage. The Committee recommended, however, that internal trade should be progressively re-organised on a co-operative basis which would obviate the necessity of expanding the scope of the activities of the Corporation, as in the opinion of the Committee, co-operation offers a form of control which, while securing all the benefits of state trading, would preserve the essentials of private enterprise.

Limited to
foreign
trade.

The utility of state trading even in the limited sphere of foreign trade is, however, far from being self-evident. We have argued that state trading is not likely to be economical in any real sense. It would at least secure us an adequate supply of essential commodities at an exorbitant price or an inadequate supply at a reasonable price. Imports on private account would fare no worse; possibly they can fulfil better the standards of quality, quantity and prices. On the export side, the sellers' market is fast disappearing, and all our principal exports, viz., jute and jute manufactures, shellac, mica, etc., have to meet with heavy competition from substitutes and a Government monopoly in

Utility
questioned.



the export trade in these articles would weaken their position in the overseas markets still further.

Other undesirable effects.

Apart from the above objections, state trading will also have other undesirable effects. It will increase the burden on the consumers as the distribution costs of state trading will be passed on to them in the shape of higher prices. Procurement and distribution of foodgrains under Government auspices during the last few years have amply demonstrated the high cost and the low level of efficiency of Government agencies in charge of commercial operations. The quality of the rationed articles supplied by the Government have also been far below the mark.

While the country suffers from the inadequacy of productive capital and has every reason to husband existing resources, utilising them only for new lines of development and the creation of new wealth, state trading would involve the Government in large capital outlay only for the purpose of substituting one type of marketing machinery for another. The new Government machinery would bring the community no additional facilities, but, in all probability, poorer facilities and considerably higher cost. The machinery which is supplanted—both equipment and personnel—would simply run to waste, giving rise to problems of unemployment and idle capacity in fields far and wide.

5. INDIA AND THE INTERNATIONAL TRADE ORGANISATION.

After the close of the Second World War, the conviction began to dawn upon leading statesmen that unless conditions of stability and well being can be created and maintained throughout the world, the establishment of peaceful and friendly relation among the nations of the world would be hardly possible. Co-operation in the fields of trade and employment thus came to be regarded as the essential pre-requisite to political co-operation in the interests of peace. In February 1946, the Economic and Social Council of the United Nations passed a Resolution with a view to holding an International Conference on Trade and Employment. The object of the conference, the resolution said, would be to promote an expansion of production, exchange and consumption throughout the

world and thus contribute to the creation of balanced and expanding economy. The conference met in Havana on November 27, 1947 and after deliberations lasting over four months, succeeded in drawing up a charter (known as the 'Havana' Charter) for the establishment of an International Trade Organization. The organization intended to help its members to achieve balanced economic development through mutual collaboration. The charter was signed by representatives of 54 nations at Havana on March 24, 1948. The signature amounted only to authentication of its text and the charter acquired ratification by the Government's concern. Only two countries have so far ratified it.

The objectives of the Charter are:—

- | | |
|---|---|
| <ul style="list-style-type: none"> (1) to increase income, demand, production, consumption and exchange of goods ; (2) to foster economic development, particularly of those countries which are still in the early stages of industrial development, and to encourage international investment ; (3) to promote equal access of all countries to markets, products and productive facilities ; (4) to reduce tariffs and other barriers to trade and to eliminate discriminatory trade treatment ; (5) to enable countries by increasing their opportunities for trade and economic development and to abstain from measures which would disrupt world trade ; (6) to facilitate through consultation and co-operation the solution of problems relating to international trade in the fields of employment, economic development, commercial policy, business practices and commodity policy. | <p>Objectives
of the
Charter.</p> |
|---|---|

<p>The purpose underlying these objectives is the establishment of an international code of commercial and investment principles designed to guide world trade away from restrictive and discriminatory trade practices, and to promote the economic development of backward and under-developed countries.</p>	<p>Purpose.</p>
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As a member of the United Nations Conference on Trade and Employment and a signatory to the Charter, India will have to decide whether she will accept the Charter with all its implications and thus become a full-fledged member of the I.T.O. Membership of the I.T.O. will certainly impose some

restrictions on India's power to prevent the import of foreign articles or to give preferential treatment to one country, rather than another in the matter of imports of goods or capital. This may preclude India from giving effective protection to newly established indigenous industries and hamper, rather than help, economic development. On the other hand, the I.T.O. envisages mutual co-operation among members for the general economic development of the less developed areas of the world, and India may expect to benefit on that score from the membership of the organisation. Provisions for such co-operation are, however, somewhat meagre and no concrete steps for development are likely to be taken in the near future; the main emphasis of the charter is upon the removal of restrictive business practices and the free flow of World trade. Such unhampered trade may, at least in the short period, be immensely disturbing to the backward economies. Unless greater recognition is given to the unequal development of the different countries, the relatively undeveloped countries may not be encouraged to give unqualified support to the Charter. Thus, for India, it would be essential to seek clarification of the various provisions of the Charter before she can join the I.T.O. without prejudice to her plans of industrial development.

Objections.

The principal objections to the Charter urged before the Fiscal Commission are as follows:

(i) It is not possible for countries in different stages of developments and with different needs to conform to a uniform commercial code.

(ii) Under the Charter, approach to I.T.O. is necessary under most of the clauses permitting of exceptional treatment to under-developed countries. This, it is contended, is to the disadvantage of countries like India.

(iii) Although the Charter is concerned with both foreign trade and internal development and employment, greater emphasis has been placed on the former to the comparative neglect of the measure required for the development of under-developed countries;

(iv) Objection has been taken to supra-national regimentation of domestic economic policies which it is feared is certain to go against the interests of under-developed countries.



After examining these objections, the Commission make the final recommendation that India should ratify the Charter, provided:

- (i) that the other countries of major economic importance, including the U.S.A. and U.K., have by then ratified it and
- (ii) the economic conditions in the country at the time justify this course.¹

Recommendations.

¹ *Report of the Fiscal Commission, 1949-50.*

CHAPTER XXX

THE BALANCE OF PAYMENTS PROBLEM

Deterioration
in Balance
of Payments
position.

A most important feature of India's foreign trade, a short while ago, was that not only her balance of payments position *vis-a-vis* dollar and hard currency countries became unsatisfactory but also that her over-all balance of payments position was deteriorating. Her total current transactions revealed a net deficit of Rs. 122·5 crores in 1948. This deficit, besides the deficit with the dollar and hard currency areas, included Rs. 63·8 crores *vis-a-vis* the sterling area, and Rs. 12·1 crores *vis-a-vis* other areas. It was, however, the deficit with the dollar and hard currency areas that caused for a considerable time a great deal of concern to the Government of India.

The Finance Minister drew pointed attention to this dollar deficit in his budget speech of February 28, 1949. Before World War II India had actually enjoyed a surplus with the United States and this surplus had tended to expand during the years of the War. But after the cessation of the war, in common with the other countries of the world, India began to incur fairly large deficits with the dollar and hard currency areas. The net deficits in her current transactions with the dollar and hard currency areas stood at Rs. 4·84 crores in 1946, at Rs. 85·80 crores in 1947 and Rs. 49·66 crores in 1948.¹ The deficit of 1946 and the much larger one of 1947 had been financed out of the Central Reserves of the Sterling area, and no quantitative restrictions had been placed upon the convertibility of sterling. A serious situation had thus been avoided. But from January 1948, Great Britain became unwilling to carry this responsibility any longer, and insisted on definitely limiting the convertibility of sterling. Thus India could meet only a portion of her total dollar and hard currency deficit out of releases from the Central reserves of the sterling area and she had to purchase dollars from the International Monetary Fund amounting to

¹ *Reserve Bank of India Bulletin*, July, 1949.



\$100 million by the end of March, 1949. India, therefore, came to be faced with a shortage of dollars in the sense of an excess of dollars spent over dollars earned. This created a fundamental international payments problem which is popularly known as the dollar problem. The position was aggravated by a remarkable decline in India's exports of merchandise by sea in the first half of 1949. Such exports totalled Rs. 184 crores only during this period as against Rs. 209 crores in the corresponding period of the previous year. Jute manufactures and raw jute were mainly responsible for this decline in exports. In terms of value there was an over-all decline of jute manufactures from Rs. 72 crores to Rs. 58 crores, and in respect of the hard currency areas the fall was from Rs. 35 crores to Rs. 25 crores.

The main factors that were responsible for the widening gap in India's balance of payments were fundamentally the serious maladjustments in the structure of production and consumption brought about by the consequences of Partition and the after-effects of the War. The disruptive effects upon the country's economy are to be witnessed clearly in the failure of the country's food production to keep pace with an increasing population. Large imports of foodstuffs from abroad, particularly from the Western Hemisphere, became imperative. The total cost of such imports from dollar sources alone amounted to \$100 million in 1948. It represented one-third of the total cost of India's food imports and two-thirds of her currency deficit.

Causes of the balance of payments difficulties.

Position in 1948.

Superimposed upon the effects of Partition were the effects of an enormous pent-up demand for durable consumers' goods, the requirements of capital replacement, reconstruction and development and last, but not least, inflation.

If the dollar problem consisted in an excess of dollar spendings over dollar earnings, the main solution should be found in increasing dollar earnings and reducing dollar spendings. This meant that exports to dollar areas should be increased as much as possible, while imports from such sources were to be drastically reduced.

The solution of India's dollar problem.

But, as we have already seen, the obstacles to the expansion of our exports were great. The Government, therefore, in addition to promoting exports, drastically curtailed India's imports

from all sources, both hard currency and soft currency, with a view to balancing the foreign exchange budget of the country.

Position
in 1949.

India's foreign trade and balance of payments with the outside world (excluding Pakistan) for the year 1949 may be divided into three distinct phases. During the first phase, which lasted up to May, 1949, imports rose progressively to a monthly rate of nearly Rs. 60 crores as against an average of Rs. 38 crores per month in the first half of the previous year. The total exports, on the other hand, dwindled to about Rs. 26 crores in May against a monthly average of Rs. 40 crores during the first six months of 1948. During the second phase which lasted till the devaluation in September, 1949, imports were held in check while exports began to show an uptrend. In the last phase, the trends of the second phase were accentuated mainly as a result of devaluation. The payments deficit for the year as a whole was Rs. 146·6 crores. Available data for the quarter January-March 1950 show a continuation of the improvement in the payments position. From April 1950, however, imports have again started rising and deficits have reappeared.

The pre-devaluation period showed heavy deficits in the Indo-Pakistan trade and balance of payments. India's exports to Pakistan did not attain the expected level. This would not in itself have caused much difficulty had it not been for the heavy deficits with the rest of the world. The post-devaluation balance in Indo-Pakistan trade is artificial, both imports and exports having dropped to a fraction of the previous volume.

The magnitude of the payments deficit in 1949 was strikingly large. Even with an allowance for an extraordinary payment of Rs. 11·9 crores for Defence stores, the over-all deficit was Rs. 146·6 crores which is all-time high. The deficit in 1948 was Rs. 83 crores. The half-yearly figures help to throw light on the factors responsible for a worsening in India's balance of payments. As the capital account for July-December 1949 shows a small disinvestment of Rs. 2·7 crores, the deficit in the first six months of 1949 was Rs. 143·9 crores. The larger gap in payments resulted from a fall in receipts and an increase in debits the trend in this direction, which appeared towards the close of 1948 being accentuated in 1949. The deficit in the second half of 1948 had largely resulted from a relaxation of



import controls which followed the Indo-U.K. Financial Agreement of July, 1948. As the sterling releases granted for July, 1947—June, 1948 had been practically untouched, imports were liberalised in the second half of 1948.

The full impact of this liberalisation began to be felt early in 1949; imports rose progressively from a monthly rate of Rs. 38 crores during the six months, January-June 1948, to a maximum of Rs. 62 crores in May 1949. The index number for the quantum of imports during the quarter April-June 1949 was at a record level of 151.5. Commercial imports flowed in, during the first half of 1949, at an annual rate of Rs. 511.2 crores as compared with Rs. 395.6 crores in the previous half-year. Government imports in 1948 were fairly evenly distributed between the two halves of the year, being around Rs. 69 crores in each. They were at an unusually high level of about Rs. 107 crores in the first half of 1949, owing chiefly to purchases of foodgrains, which became urgently necessary on the re-imposition of controls. On the other hand, the downward trend in exports, which had set in in the second half of 1948 (probably attributable, in part, to seasonal factors), persisted in the first half of 1949, the rate of exports being about 24 per cent. below that in the corresponding period of 1948. The index of the volume of exports in the quarter, April-June 1949, was at 54.1 as against a range of 60 to 70 for the preceding four financial years.

The growing unbalance caused serious concern and called for a stricter import policy coupled with attempts to step up exports. Import restrictions were made more stringent in May, 1949 when O.G.L. IX, relating to imports from sterling and soft currency areas, was cancelled. The effect of this is reflected in the statistics of the period, July-September, 1949. The deficit during the quarter ended September, 1949 fell to Rs. 32.0 crores or to an annual rate of Rs. 128 crores, as compared with a deficit at an annual rate of Rs. 287.8 crores in the first six months; both commercial and Government imports declined from their abnormally high levels. The index number of the volume of imports for this quarter was 127.8, while that for exports approximated to the average of the earlier years. The terms of trade, however, suffered somewhat, the fall in export prices being greater than that in import prices.

The improvement in exports and the fall in imports noticed during the third quarter was accentuated after the devaluation of the rupee in September, 1949. Devaluation provided a two-fold attack on India's dollar problem. It tended to make India's exports cheaper in terms of dollar and other hard currencies and thereby stimulated its exports. At the same time it made the imports from dollar and hard currency areas dearer in terms of the rupee and thereby reduced such imports with the result that the expenditure of valuable foreign currencies decreased.

The consequence was that, as against a deficit of Rs. 175·9 crores in the first nine months of the year, the last quarter showed a surplus of Rs. 29·4 crores, increased exports playing as valuable a part as reduced imports in producing this result. The volume of imports in the last quarter of the year was at 115·1 and exports showed a record increase for the quarter of nearly 38 per cent. over the previous quarter, the volume index reaching 92·9, the peak figure for the post-war period. Devaluation of the rupee led, in a number of countries, to a substitution of commodities from the hard currency areas or commodities with a high dollar content by Indian exports. The terms of trade, however, worsened further, prices of imports rising faster than the prices of exports, specially with countries which did not devalue their currencies. A part of the increase in exports might reflect deferred demand as importers in the hard currency areas had postponed their normal purchases in anticipation of devaluation.

The capital account part of the balance of payments shows that during the first half of 1949 the foreign exchange assets, comprising primarily the sterling assets of the Reserve Bank of India, fell by Rs. 165·1 crores and during the third quarter by Rs. 34·6 crores. In the last quarter, owing to an improvement which followed devaluation, the foreign exchange assets rose by Rs. 30·9 crores. Among other items in the capital account may be mentioned the repayment by Siam of a loan of Rs. 4·6 crores which India had granted to her in 1946, in advance of the stipulated time (which was rendered possible by a striking improvement in the payments position of the country) and a



drawing of Rs. 7.0 crores by India from the loans sanctioned to her by the International Bank.

The current account payments with the sterling area and the over-all current account payments tended to move in the same direction. The deterioration in the former in the first half of 1949 was due, mainly, to a rise in private imports, which were flowing in at an annual rate of Rs. 259 crores, or twice the rate in the corresponding months of 1948, and, partly, to a fall in exports. The rate of imports slowed down beginning with the third quarter when the more stringent import policy adopted in May, 1949 began to bear fruit; the gap in the payments with the sterling area tended to close. The improvement in payments was accelerated by the devaluation of the rupee in the third quarter of 1949. In the second half of 1949, over-all current account payments showed a surplus of Rs. 20.1 crores as compared with a deficit of Rs. 59.7 crores in the previous six months.

The hard currency current account deficit amounted to Rs. 49.5 crores in the first half of 1949 as against Rs. 10.4 crores and Rs. 32.3 crores in the first and second halves, respectively, of 1948. The steep rise in the deficit was mainly due to a fall in exports which dropped progressively up to June, 1949 and to the high level of Government imports which rose from an annual rate of Rs. 50 crores in the first half of 1948 to about Rs. 70 crores in each of the two following half years. The suspension of dollar imports between June and September as an emergency measure and the steps taken as a result of the Commonwealth Finance Ministers' Conference to limit dollar imports to an annual rate of 75 per cent of the 1948 level reduced the deficit in the third quarter to an annual rate of Rs. 37.6 crores. Exports, however, remained at a low level. The impact of restrictions on dollar imports continued in the last quarter of the year when private imports fell to an annual rate of Rs. 74.4 crores as compared with Rs. 132.6 crores in the first half of 1948. Following devaluation exports rose steeply from an annual rate of Rs. 106.8 crores in the third quarter to Rs. 173.2 crores in the last quarter. This, coupled with reduced imports, led to a surplus of Rs. 18 crores during the quarter and a surplus of Rs. 8.6 crores for the second half year. The hard



currency deficit of Rs. 81·8 crores for the year, July 1948—June 1949, was financed by an agreed release of \$60 million from the Central Reserves of the sterling area, an overdrawing of \$84 million on the Central Reserves, a purchase of \$56 million from the International Monetary Fund and recourse to the dollar balances of the India Supply Mission.

The importance of 'other areas' in India's balance of payments has grown primarily as a result of efforts to divert purchases from the dollar and other hard currency countries. The current account deficit with 'other areas' was at Rs. 55·8 crores during the first half of 1949 as against a surplus of Rs. 17·3 crores during the corresponding half-year of 1948. This resulted partly from a decline in exports but mainly from an increase in imports from an annual rate of Rs. 54·4 crores in the first half of 1948 to Rs. 179·2 crores in the first half of 1949, Government's purchases alone rising from an annual rate of Rs. 0·2 crores to Rs. 56·6 crores. The gains achieved in this area during the third and fourth quarters of the year were not as striking as elsewhere; payments for the two quarters together showed an adverse balance of Rs. 10·8 crores. This was due to the increase in exports to this area being negligible.¹

¹ *Report on Currency and Finance, 1949-50.*

CHAPTER XXXI

ECONOMIC CONTROLS¹

1. CONTROL OF ESSENTIAL COMMODITIES

World War II brought in its train a sudden speculative rise in retail prices. Under the defence of India rules powers were delegated by the Central Government to the various provincial Governments to fix the prices of the bare necessities of life. But much use was not made of these powers. The first Price Control Conference was held as early as October, 1939. At that time the weekly index-number stood at 111·4 only (base-week ending August, 19, 1939—100). A series of Price Control Conferences followed at frequent intervals. Among the chief control measures adopted in 1940-41, rationing of petrol and price control in respect of iron and steel, matches, medicines, newsprint, kerosene and non-ferrous metals were introduced. At the fourth Price Control Conference held in February, 1942 the emphasis was shifted from price control to control over distribution. By the time the sixth Price Control Conference was held in September, 1942, a thriving black-market had already been in operation. The Conference recommended the creation of a Central Price and Supply Board for strengthening the machinery of price control at the Centre. By 1943, there was a large extension of economic controls in the country and a number of industries, like leather, paper, rubber, tea and sugar, was brought under control. After the phenomenal rise of food prices in 1943-44 and the Bengal Famine of that year, the Central Government assumed a greater measure of direction and control. As has already been noticed, various steps were taken to check price rises and speculative and panicky hoarding of food-stuffs.

Beginning
of World
War II.

Price Control
Conferences.

Rationing.

But it was not simply the prices of food-stuffs that were soaring. The prices of almost all essential goods jumped up to

¹ As food control has been examined in a previous chapter no further discussion of the subject is necessary here, although references are made to it in several places.



giddy heights and black-markets were active. Hence control measures were adopted with regard to most of them.

High
prices.

Next to Food, cloth was causing great anxiety. The Cotton Cloth and Yarn (Control). Order passed in 1943, constituting a Textile Control Board, provided the principal basis of cloth control in the country. Price control measures in respect of cloth suffered from several limitations. Hand-made cloth was not included within the scope and cloth meant for export was exempted from the ceiling price imposed on cloth meant for the internal market. The sugar and coal industries were also brought under control.

Price
Control:
food, cloth,
sugar, coal.

Other
consumer
goods.

Hoarding
and Pro-
fitteering
Ordinances.

Apart from the specific control measures adopted in regard to food, cloth, sugar, coal, paper, etc., a general control order for regulating the price of a wide variety of ordinary consumer goods was passed. Under the spell of the inflationary prices prevailing in the country from the middle of 1941, ordinary consumers' goods had registered a steep price rise. To cope with this situation, the Hoarding and Profiteering Prevention Ordinance was passed in 1943. It prohibited the producer, the dealer and the consumer to possess more than a limited stock of specified items of consumer goods. The order embraced a large variety of consumer goods. But the immediate effect was the complete disappearance from the market of the goods concerned, and the ordinary consumer could secure the goods in question only at black-market prices.¹

Post-war
Control.

The post-war years did not witness a withdrawal or even a widespread relaxation of control measures, as many persons had expected. After the Partition, the economic situation further deteriorated and the shortage continued. Although the Hoarding and Profiteering (Prevention) Ordinance of 1943 and the Consumer Goods Control of Distribution Order of 1943 were allowed to lapse at the end of September, 1946, the Essential Supplies (Temporary Powers) Act, 1946 was passed under which control over supply and distribution of a large number of essential commodities came to be retained by the Government. Food control, as has been pointed out before, was further intensified. In December, 1947, a revised food policy

¹ R. N. Chatterjee, *Price Control and Rationing in India*.



of progressive decontrol was announced. The decontrol experiment resulted in a large spurt in all prices. In July, 1948, the Economic Adviser's General Index steadily rose to 389·6 from 302·0 in November, 1947. When Government decided upon progressive decontrol, an all-round rise of 29 per cent. took place. Decontrol thus led to an activation of inflationary forces.¹ Therefore, re-control had to be applied immediately, first to cloth, the prices of which had risen most sharply, and then to food-grains.

It would be incorrect to suggest that the control policy of the Government has done no good to the community. The general mass of consumers has been able to secure supplies at moderate prices of essential goods,—goods which would have had to be paid for very dearly or which would not have been obtainable to the bulk of them at all. But, at the same time, it must be admitted that the administration of these controls has been very lax, inefficient and even corrupt. Black-markets have merrily thrived and very high prices have frequently been extorted.

Pros and cons of control policy.

At the present moment the question of abolition of controls has been engaging a great measure of attention. Corruption and black-marketing, which the control measures have fostered, have made a large section of the people intolerant of these controls. This section is expecting that the abandonment of controls would not only lead to the disappearance of the black-marketers and profiteers but would also ease the supply position considerably.

From past experience, however, such expectation cannot be justified. It was abundantly clear that decontrol in 1947 resulted in prices soaring to giddy heights and in extraordinary profits to millowners and merchants at the expense of the consuming public. This was amply demonstrated in the case of foodgrains and cotton cloth—which were decontrolled at the instance of Mahatma Gandhi—and later, of sugar. In both these cases the Government was compelled to re-impose control and the new controlled prices were fixed at much higher levels

Decontrol in 1947.

Re-control.

¹ *Report on Currency and Finance, Reserve Bank of India, 1948-49, p. 71.*



Is decontrol
desirable?

than before. Consumers, helplessly swept away in the maelstrom of control, decontrol and re-control, may well demand that controls must not be abandoned, at the instance of interested parties, until the atmosphere is created in which trade on a free and de-controlled basis can be carried on without any cost to the welfare of the community. According to the Food-grains Procurement Committee, whose Report has just been submitted to the Government, decontrol of food-grains would not be advisable now. Moreover, the food situation has been complicated by the heavy influx of refugees from Eastern Pakistan into the Indian Union. In the circumstances decontrol in respect of food-grains is likely to be followed by disastrous consequences. As regards existing controls on other commodities, the relaxation and withdrawal of controls will clearly depend upon their supply position as indicated by their production figures and stocks. Cotton goods and sugar in this respect can present no case for abolition of controls at this moment. It is well known the production of cotton yarn and cotton cloth, owing to various causes, was relatively much lower in 1949 than in 1948. Production was 1,358,257 lbs. of yarn and 3,900,757 yards of cloth in 1949, as against 1,445,073 lbs. and 4,319,450 yards respectively in 1948.¹ As regards sugar, it is found that during the period 1st November, 1949 to 30th April, 1950, the Indian mill production was a little over 9½ lakh tons which was short of the demand by 3½ lakh tons.

Decontrol
of coal,
cement,
petrol,
paper, etc.

In respect of some other commodities, such as coal, cement, petrol, paper, etc., the supply position is much better. There was a record coal production of 31·4 million tons in 1949, as against 29·7 million tons in 1948, and there is now no coal shortage so far as production is concerned. Cement production rose from 1·56 million tons in 1948 to 2·06 million tons in 1949. There is hardly any case for retention of control over these goods. The Government also have been thinking along these lines and petrol, kerosene and paper have already been decontrolled. Other articles, similarly situated, will, it is expected, soon follow suit.

¹ Report, Ministry of Industry and Supply, 1949.

The Government of India have, through the whole period, relied on a series of haphazard controls, missing the wood for the trees and re-acting to parts rather than acting on the whole of the economy. Most of the evils of the control system have been due to the haphazard and uncoordinated manner in which the machinery has been put into operation.¹ When the time comes for controls to be relaxed or abandoned, will it be too much to expect that the retreat will be orderly, planned and well-conceived?

2. IMPORT AND EXPORT CONTROLS

At a very early stage of the last war, the Government of India introduced export control. The original list of articles to which export control was made applicable was small, but the list was gradually expanded until special powers had to be taken under the D.I. rules. It was in May, 1940 that notifications for control of exports were issued for the first time under the D.I. Rules. The war-time objectives of exchange control were: first, prevention of essential commodities reaching the enemy; second, ensuring a fair distribution of the available export surplus to the allies for the maximisation of their war effort; and, third, conservation of essential supplies for internal civilian consumption. As the war ended, the main plank of Government's export policy came to be the liberation of export trade from war-time control. The relaxation, however, had to be made consistent with the requirements (1) to maximise the earnings of hard currency, (2) to fulfil India's obligations in respect of bilateral agreements and (3) the necessity to provide a reasonable amount of exportable materials for the domestic consumer. The following measures were taken to implement these policies: (1) relaxation of war-time control on exports of non-essential articles, (2) fixing up, in the case of essential commodities, of overall as well as destination quotas for certain commodities and countries, (3) even within overall quotas, permitting as much exports to

¹ A. P. Dasgupta, *War and Post-war Inflation in India* (Khoj Parishad), 1950, pp. 61-62.

² *Reserve Bank of India Bulletin*, September, 1949.



hard currency areas as possible and (4) lastly, altering export duties according to the needs of the situation.

Import and
Export Con-
trol Act,
1947.

Control over the export trade has been exercised by the Government under the Import and Export (Control) Act of 1947. There is also an Export Advisory Council for the purpose of advising the Government on the working of the export control policy. When the need for maximising hard currency earnings became of paramount importance, there was naturally an anxiety to preserve the traditional export markets without depriving the domestic consumers of essential commodities, as also the countries with which Government had entered into bilateral agreements. As the first step towards diverting exports to hard currency channels, arrangements were made from July, 1948 to increase exports of jute goods to the full extent of the quantity applied for. Exports to other destinations were also liberalised.

Import
control
Policy.

Introduction of import control duties was made from May, 1940 under the D.I. Rules. By August, 1941 almost all categories of imported goods were brought under control. In war-time the main considerations which governed import control policy were: first, the want of shipping accommodation; secondly, the shortage of supplies in the exporting countries and finally, the need to conserve the country's hard currency resources. With the end of the war and the disappearance of the transport shortage, the Government considered that import control could be sufficiently relaxed, to meet the enormous pent-up demand for consumer as well as capital goods. The larger importation of consumer goods from abroad, it was believed, would also act as a brake on the internal inflationary prices. Accordingly the system of Open General License (O.G.L.) was extended to a large variety of imports from different countries. But this policy involved a heavy drain on the country's limited foreign exchange resources and had to be practically abandoned. Import control has now been closely related to foreign exchange control and the balance of payments position.

¹ *Report on Currency and Finance*, Reserve Bank of India, 1948-49, p. 75.

For the purpose of licensing, goods have been divided into several categories, such as goods under O.G.L. for import from soft currency areas, goods for which no licences are granted from any source, goods which are licensed freely from soft currency areas, goods for which no licences are granted for dollar and hard currency areas and so on. High priority is accorded to capital goods and the essential consumers' needs are also taken into account.

Here, again, the policy makers have found themselves on the horns of a dilemma and it is no wonder that, in the absence of clear perception and sound thinking, they have fumbled. In order to control inflation they think they are bound to relax import controls to a considerable extent; but for the purpose of fighting the menace of the dollar shortage they have found it necessary to tighten up the controls most severely.

3. EXCHANGE CONTROL

Even before the Second World War had broken out, Britain had completed her preparations for introducing a most rigorous system of exchange control. The proposals were conveyed to the Government of India in the form of an extract from Draft Defence Regulations well in advance. The Governments of Britain and India having reached satisfactory agreements, Britain announced her readiness to admit the rupee into the sterling area on the outbreak of the war and India adopted an exchange control system closely patterned after the British. Its legislative and administrative framework was as follows: The Government took powers under the Defence of India Rules (1) to prohibit the acquisition of foreign exchange either directly or indirectly or the dealing in foreign exchange by residents in India except under authority, (2) to require residents in India to declare their holdings of foreign currencies and foreign securities and on the issue of special orders to surrender them, (3) to prohibit the acquisition by residents of securities from persons outside India or the export of securities from India except with the permission of Government, (4) to prohibit dealings in bullion except with the authorization of

Exchange
Control.

Government and (5) to prohibit the export and import of gold except under licence from the Reserve Bank.

The statutory authority continued to be the Defence of India Rules throughout the war but it was replaced later by the Foreign Exchange Regulation Act, 1947.

By a notification the various powers vested in Government by the Defence of India Rules were delegated to the Reserve Bank of India on September 4, 1939; and the Bank was empowered to deal in foreign exchange, to make rules, to license other dealers, and issue directions for authorised dealers from time to time. No action was taken with regard to the requisitioning of foreign currencies and securities, the holdings of which on the part of residents were considered to be small. Domestic dealings in gold were left free. Licences for the export of gold were to be granted only against receipt of U.S. dollars, or if the gold was being shipped to the Bank of England. Import was allowed provided no foreign exchange was required.

Administratively, the biggest task was the establishment of a separate exchange control department in the Reserve Bank and the licensing of banks to deal in foreign exchange. In the first instance 28 banks were licensed. They were all included in the second schedule of the Reserve Bank and had dealt in foreign exchange. In 1950, as a result of subsequent additions, the number of such banks, as are authorised dealers has risen to 42. Export and Import Control Schemes,¹ as parts of the exchange control system, were introduced. Regulations were also imposed with regard to foreign travel for private purposes. In general, all payments of a current nature are provided by the Bank. The working of exchange control in India has been fairly successful.²

¹ The Import Control Enquiry Committee, appointed in July, 1950, observes as follows in its Report: "In our view the fundamental problem of import control in this country is the problem of securing a maximum measure of stability in policy and administration, and the efficient and expeditious implementation of approved policy." The Committee recommends that so long as the present difficulties regarding balance of payments last, the Government policy should concentrate on the maintenance of the existing O.G.L.'s, followed by a gradual liberalisation of imports of licensible articles.

² *Reserve Bank of India Bulletin*, May, 1950.

CHAPTER XXXII

FISCAL POLICY

1. DISCRIMINATING PROTECTION

THE abstract question whether Free Trade or Protection should be adopted by a state in its commercial policy would form more fittingly the subject of discussion in a treatise on General Economics than in a work on Indian Economics. But the arguments of the two schools may be briefly summarised here so that they may be helpful to the solution of our concrete problem. The advocates of free trade point out the following advantages of the system: (1) international trade is like internal; the freer it is, the greater are the advantages to both parties; by allowing trade to be absolutely unfettered, everyone is able to buy in the cheapest and to sell in the dearest market, and the gains of all are at a maximum; (2) every nation is in a position to develop its natural advantages to the utmost, and thus the world's total wealth is enhanced, because of the distribution of productive energies in the most economical fashion; and (3) free trade means goodwill among nations and among sections of a community. To these arguments the opponents of the system would reply that the analogy between internal trade and international trade is not quite correct; that when an industry in one country is threatened with destruction by a similar one in another, it is no solace to the former that the world's wealth is being augmented at the cost of its own; and that, far from promoting goodwill, free trade may produce the result of placing one country in economic subjection to another.

Merits of
Free
Trade

not recog-
nised by
 Protec-
tionists.

The reasons that have been usually advanced in favour of protection are the following: (1) It is necessary to restrict imports in order to secure a surplus of exports so that there may be a balance of trade favourable to the country; (2) protection is beneficial to agriculture as well as to industry because the resulting increase of wealth and population is likely to afford

Merits of
 Protec-
tion.



Defects.

a larger market for the food and raw material of the neighbourhood; (3) protection has a tendency to increase wages and to raise the standard of living of labour; (4) it furthers an all-round economic development and secures national industrial independence; and (5) under the fostering care of the state, infant industries are protected against unfair competition during the period of their growth, and thus saved from extinction. The usual objections to protection are: (1) In principle, it is destructive of all foreign trade and the moral and intellectual benefits resulting therefrom; (2) it prevents a country from producing as much in the aggregate as it might produce in the absence of protection; (3) it does not really protect, because it destroys as many industries as it artificially fosters; (4) it diverts capital from its natural channels; (5) it tends to demoralise the industrial classes and to render industry unproductive; (6) it benefits the producer at the expense of the consumer, and is thus a robbery of the many for the benefit of the few; (7) it involves interference of the state with trade and industry, and it often produces political corruption, and (8) it causes national animosities.

Element
of truth in
each
theory.

Without entering upon a detailed criticism of the arguments and reasonings of the two rival parties, it may be remarked here that in their enthusiasm for their respective favourite doctrines, the advocates of each go a little too far in their particular direction. Although some of the positions occupied by the extremists on each side are untenable, there is an element of truth in each of the two opposed doctrines. Cosmopolitanism is an excellent ideal, but a far-off one. So long as the different nations exist, each one of them should be allowed to develop itself in the best way it can. Free trade means rivalry among the industries of different countries; and when such industries are on a footing of equality, it helps to make each of them stronger. But when the struggle is between a strong industry and a weak one, the latter is sure to be pushed out of the field unless it is backed up by the state. Even such an ardent supporter of free trade as J. S. Mill admitted that in the infancy stage of an industry protection was useful. "The only case", he said, "in which, on mere principles of political economy, protective duties can be defensible, is when

Mill's con-
cession in
favour of
Protection.



they are imposed temporarily (especially in a young and rising nation) in hopes of naturalising a foreign industry, in itself perfectly suitable to the circumstances of the country". Mill further said: "A protecting duty, continued for a reasonable time, will sometimes be the least inconvenient mode in which the nation can tax itself for the support of such an experiment. But the protection should be confined to cases in which there is good ground of assurance that the industry which it fosters will after a time be able to dispense with it; nor should the domestic producers be ever allowed to expect that it will be continued to them beyond the time necessary for a fair trial of what they are capable of accomplishing."¹

Friedrich List was an ardent advocate of the infant industry argument. "A nation", said List, "which only carries on agriculture is like an individual who in his material production lacks one arm."² He laid great stress on productive power, and held that the power of producing wealth was "infinitely more important than wealth itself". The productive powers of all nations are not equal, and the differences are largely the result of natural and acquired advantages. ~~The~~ superiority of one country over another may be due to acquired advantages, and List rightly urged that "the less advanced nations must be raised by artificial measures to that stage of elevation to which the English nation has been artificially elevated." He also regarded the value of manufacturing industries, from the point of view of civilisation, as very great. Without them, a nation must remain relatively unprogressive.

List's views.

Professor Taussig also supports the infant industry argument. His view does not simply rest on List's "doctrine of stages in economic evolution—on the inevitableness of the transition from the agricultural and extractive stage to the manufacturing stage." He goes a step further when he says: "I am disposed

Taussig's opinion.

¹ Mill, *Principles of Political Economy*, Bk. V. Chap. X.

² List, *National System of Political Economy*. List clearly points out the defects of an exclusive pursuit of agriculture in these words: "In a country devoted to mere raw agriculture, dullness of mind, awkwardness of body, obstinate adherence to old notions, customs, methods, and processes, want of culture, of prosperity, and of liberty prevail. The spirit of striving for a steady increase in mental and bodily acquirements, of emulation, and of liberty, characterise, on the contrary, a state devoted to manufacture and commerce."



to admit that there is scope for protection to young industries even in such a late stage of development. Any period of transition and of great industrial change may present an opportunity."¹

The fiscal policy which ought to be adopted by a country at a particular moment should be appropriate to its peculiar circumstances at that moment. All the industrially advanced countries of the world have afforded protection to their industries during the period of their infancy. The protective policy of Cromwell and Colbert laid the foundations of the industrial greatness of England and France respectively. Germany, France, the United States, the British Colonies, and Japan have for a long time past maintained definitely the policy of protection. England, after having been a free trade country for more than a century, has again become protectionist.

It has already been pointed out that India has, until recently, been mainly an agricultural country exporting raw materials and food-stuffs and importing manufactured products. Producing only raw materials, she imported manufactured goods, and was thus, in the words of the great economist, "like an individual with one arm, which is supported by a foreign arm." Besides, the exportation of agricultural products meant the sending away of the soil. It increased the tendency to the operation of the Law of Diminishing Return in an intensified form. Further, a purely agricultural country, dependent on the mercy of the monsoons, must always remain subject to periodical visitations of the spectre of famine. It should also be remembered that agriculture is not a sufficiently remunerative occupation, and a people devoted almost exclusively to it can never hope to make any great progress in material civilisation.

It is, therefore, obvious that industrial development is one of the most essential conditions of national progress. The question now is whether a judicious application of the policy can hasten the pace of industrial advancement of the country. India can at present be said to be in the same inevitable stage of transition from the agricultural and extractive stage to the manufacturing stage as List found in America and Germany about the middle

¹ Taussig, *Some Aspects of the Tariff Question*.

The right
fiscal
policy
for India.

'Infant
industry'
argument.



of the last century. There is, therefore, a considerable scope for the application of the 'infant industry argument' for protection to her case. But in order that the trouble and expense may not go in vain, it is desirable, at the outset, to consider whether or not India satisfies the conditions essential for the successful development of manufactures. The Indian Fiscal Commission laid down the following three conditions for the protection of an industry:

The Fiscal Commission: Its recommendations.

(1) the industry must be one possessing natural advantages, such as an abundant supply of raw material, cheap power, a sufficient supply of labour, and a large home market;

(2) the industry must be one which without the help of protection is not likely to develop at all, or as rapidly as is desirable in the interests of the country;

(3) the industry must be one which will eventually be able to face world-competition without protection.

These conditions are too rigid and unnecessarily restrictive. Besides, there are two classes of industries which deserve special consideration. In the first place, there are some industries which are essential for purposes of national defence, and these should be protected, irrespective of the general conditions mentioned above. Secondly, there are industries of which the products are utilised as raw materials by numerous other industries—these are called 'key or basic industries'—and of which any cessation of import would bring other industries to a standstill.

The Indian Fiscal Commission recommended a policy of 'discriminating protection'.¹ An 'all-round, all-pervasive' protective system cannot possibly be advantageous or beneficial to the country. It is argued by some enthusiastic supporters of a protective policy that an indiscriminate use of protection is necessary in order to create an atmosphere favourable to industrial development. But they forget to count the cost of such a policy or to estimate its probable ultimate gain or loss.

¹ The term 'discriminating protection' was first used by Lala Harkishen Lal, the pioneer of industrial and commercial activity in the Punjab. The use of another wise saying stands to the credit of this great man in regard to protection, viz., 'nurse the baby, feed the child, free the adult'.



Discriminating
Protection.
Tariff
Board.

The Government of India accepted the policy of 'discriminating protection' as recommended by the Indian Fiscal Commission. They created a Tariff Board to consider the case of every industry that might put forward a claim for protection. The first industry that came under the examination of the Tariff Board was the steel industry. The Tariff Board found that this industry satisfied all the conditions insisted on by the Indian Fiscal Commission, and recommended the grant of protection to it. This led to the passing of the Steel Industry Protection Act of 1924. Under this Act not only were the import duties on steel bars increased, but bounties were given on the production of steel rails and fish-plates in India. In 1925, on account of a heavy decline in the prices of steel imported from abroad, the Government had to grant a bounty of Rs. 20 per ton on 70 per cent. of the steel ingots produced in India. During the first three years of protection the industry made satisfactory progress, and the cost of production was brought down to an appreciable extent. For a considerable time the steel market was unsettled, and the price of steel showed a tendency to fall. The depreciation of the continental exchanges and the appreciation of the Indian exchange rendered protection to the industry almost ineffective. By 1926, the price of steel became fairly stable, but there was a considerable difference between the price of Continental steel and that of British steel, the latter being higher. The whole question was investigated by the Tariff Board before the expiry of the Act of 1924.

Protection
to steel
industry.

The new Tariff Board recommended the continuance of a policy of protection until India was self-sufficient in the production of steel, on the ground that, unless it was continued, the previous efforts to save the industry would be altogether infructuous. The Board treated British steel and Continental steel as different classes of steel, the former being equivalent to standard steel and the latter to non-standard steel. As Indian steel had to compete with the products of the United Kingdom as well as those of the Continent, it was considered desirable, on economic grounds, that two scales of duties should be imposed, a basic duty fixed with reference to the price of the British steel and an additional duty in respect of the margin between British and Continental prices. The basic duty was to



be levied on steel coming from all countries, while the additional duty would be confined to non-British steel. The Board also recommended that the payment of bounties should be discontinued.

A Tariff Bill was introduced in the Legislative Assembly to give effect to the recommendations of the Tariff Board. This Bill marked a notable departure from the principle adopted in the previous Act. "The preference to manufactures of the United Kingdom over those of the Continent", observed Pandit Madan Mohan Malaviya, "is the clear issue writ large on the Bill". He strongly objected to this introduction of the principle of preference by the back door, and remarked: "If the question of preference to United Kingdom manufactures has to be taken up, let it be taken up as a matter to be discussed and considered by itself." But the Bill became an Act in its original form, in spite of strong non-official opposition to some of its provisions.

A supplementary measure in 1928 granted protection on a small scale to the manufacture of wagons and underframes and of steel castings, by converting certain *ad valorem* duties into specific duties. Wire and wire nails did not receive any help in 1928, but, in 1932, protection was granted to the manufacture of these articles on the recommendation of the Tariff Board. The whole position of the iron and steel industry was reviewed by the Tariff Board in 1934 and new measures of protection to continue up till 1941, were adopted. The immense development of the iron and steel industry in India during recent years amply justifies the policy of protection adopted in its favour.

The cotton industry has for a long time been the chief subject of fiscal controversy. It is therefore, necessary to say a few words about the duties on cotton manufactures. The early commercial policy of England in regard to India had a two-fold object, namely, the production of raw materials for British industries and the consumption of British manufactures by the people of this country. The highly developed cotton industry of Lancashire required a market for its products, and India supplied the best market. The import duties on cotton piece-goods and yarn were kept unduly low in order to encourage importation from England. But the growth of the cotton industry in India during the second half of the last century aroused the jealousy

Fresh
action.

Steel
Protection
Act of
1934.

Cotton
duties. ✓

History.



of Lancashire manufacturers, who in 1874 demanded the abolition of the 5 per cent. import duty levied on cotton goods for revenue purposes. The ground of the complaint was that the duty was protective in character, and gave an advantage to the Indian mill industry in competition with the English industry. A Committee appointed by the Government found the demand unreasonable. But Lord Salisbury, Secretary of State, insisted on the repeal of the duty. The Government of Lord Northbrook opposed the proposal on the ground that the proposal would involve a sacrifice of a large amount of revenue. But when Lord Northbrook resigned the Viceroyalty, Lancashire manufacturers found an ardent supporter of their interests in his successor, Lord Lytton. In 1878, the Government of India exempted from payment of duty the coarser classes of goods which competed successfully with the Manchester goods. In 1882, the whole of the cotton duties was abolished along with the other general import duties. The question was reopened in 1894, when the Government of India, faced with a heavy deficit, was compelled to re-impose cotton duties. A duty of 5 per cent. on imported piece-goods and yarns was levied and this was accompanied by an excise duty of an equivalent amount on Indian yarn of counts above 20's. That concession of a duty on yarn did not satisfy Manchester, but only egged it on to further demands. In 1896, two Bills were passed in the teeth of non-official opposition, both in and outside the Council Chamber, by which a direct excise duty of $3\frac{1}{2}$ per cent. was levied on all cotton piece-goods woven by Indian mills, and the import duty of 5 per cent. was reduced to $3\frac{1}{2}$ per cent.¹

Abolition.

The cotton excise duty gave rise to a considerable amount of discontent in the country. In 1916, during the war, the Government of Lord Hardinge gave a definite pledge that this duty would be abolished as soon as financial considerations permitted. In 1922, the Fiscal Commission observed: "The existing cotton excise duty should, in view of its past history and associations, be unreservedly condemned." Agitation in favour of its abolition continued. In 1925, the duty was suspended by an Ordinance of the Governor-General, and in March 1926 it was abolished.

¹ For a fuller discussion of the subject, see the author's *Fiscal Policy in India*.



This was a measure welcomed by all sections of the community, but it was not adequate for the purpose of placing the cotton industry on a firm basis. The reasons were obvious. The Indian cotton mill industry had been suffering from very serious depression after World War I. The prices of cotton goods had fallen largely, but it had been found impossible to reduce appreciably the cost of production. The fall in prices was, to a certain extent, accentuated by the stabilisation of the exchange value of the rupee at 1s. 6d. This depression might also partly be attributed to world factors. The competition of Indian products with foreign products was very acute. The importation of cotton goods from Japan assumed considerable importance in the years 1918 to 1928. It was also pointed out by the Bombay Mill-owners' Association that the fall in the Japanese exchange gave the exporters an unfair advantage. Besides, unfair labour conditions in Japan, which permitted the working of double shift, gave the Japanese producers an advantage over the Indian producers. The Association, therefore, demanded protection against unfair Japanese competition.

Fresh difficulties.

The Tariff Board, to whom the question was referred, thought that the competition of Japanese yarn exercised a depressing effect on the price of Indian yarn, while double-shift working in Japan gave the Japanese industry an advantage of 4 per cent. on the actual cost of manufacture both of yarn and cloth. They expressed the view that there existed an unfair competition between Japan and India, and that this competition was an important cause of depression in the Indian cotton textile industry. They also held that the case for a small all-round increase in the import duty on cotton manufactures other than yarn was strengthened by the handicap imposed on the industry by the stabilisation of the rupees at 1s. 6d. The majority of the members of the Board recommended an additional import duty of 4 per cent. on all cotton manufactures other than yarn. An additional duty on yarn or a differential duty against Japan was deprecated by the majority. They, however, proposed that an attempt should be made to encourage the spinning of yarns of higher counts by means of a bounty of 1 anna per lb. on yarn of 32's and higher counts, the amount of such bounty being met out of the proceeds of the additional duty levied. The

Recommendations of the Tariff Board.



President of the Tariff Board recommended the imposition of a differential duty of 4 per cent. on all cotton manufactures imported from Japan.

Government
decision.

The Government of India did not accept the recommendations either of the majority or of the minority of the Tariff Board. They introduced a Bill to levy a specific duty of $1\frac{1}{2}$ as. per lb. of yarn, or 5 per cent. *ad valorem*, whichever would be higher, imported into the country, irrespective of its origin. The sole object of the Bill, the Government said, was to safeguard the manufacture of cotton goods in India against unfair competition. It was not really a protective measure in the sense in which this term was usually understood. The Bombay industrialists were not satisfied with the measure.

Textile
Protection
Act of 1930.

Representations, therefore, continued to be made to the Government about the effects of Japanese competition and the necessity of protection on a more adequate scale. The Report on External Competition in Piece-goods, submitted by Mr. G. S. Hardy in 1930, supported the contentions of the Bombay Mill-owners' Association, and the Government was induced to pass in April 1930 the Cotton Textile Industry (Protection) Act, which imposed a general *ad valorem* duty of 15 per cent. and also a minimum specific duty of $3\frac{1}{2}$ as. per lb. on plain grey cloth. A special additional duty of 5 per cent. was imposed on all non-British imports of cotton goods. The policy of preference involved in this measure was attacked in the Assembly, but the Bill was ultimately passed, and India had to swallow another dose of Imperial Preference.

Increases
in duties.

The Economic Depression compelled the Government to raise the duties in March, 1931. In November of the same year, a supplementary budget had to be passed to meet a heavy deficit, and a 25 per cent. surcharge was imposed on all duties. As an emergency measure against a sudden influx of Japanese cotton goods on account of the depreciation of the yen, the duty on non-British cotton goods was further raised (bringing it up to 50 per cent. *ad valorem*) in August 1932, and still further, up to 75 per cent. *ad valorem*, in June 1933.

The last important measure for the protection of the cotton textile industry was undertaken in April, 1934. The provisions of this measure were based on the Report of the Tariff Board,



the Indo-Japanese Agreement, and the unofficial 'Pact' between the Lancashire and Indian textile interests (the Mody-Lees Pact). This Act imposed a duty of 50 per cent. on cotton piece-goods of non-British origin, and also a minimum duty of 5½ as. per lb. in the case of plain greys. An enquiry was carried out by the Tariff Board in 1935 on the effects of British imports upon the Indian textile industry. The protective policy adopted in regard to cotton manufactures has helped very largely to foster the development of a great Indian industry.

A number of other industries was examined with a view to finding out whether protection was necessary. The paper-manufacturing industry was protected by the Bamboo Paper Industry (Protection) Act of 1925, based on the recommendations of the Tariff Board. The Act was renewed in 1932 and made operative till the end of March, 1939. The Act which was passed in 1939 reduced the quantum of protection granted to some kinds of paper produced in India. The development that has recently taken place in the local manufacture of paper from bamboo-pulp shows the wisdom of the adoption of the policy of protection. ✓ Paper.

The most important case of protection in the decade preceding World War II was that granted to sugar. After an exhaustive enquiry into the conditions prevailing in different centres of sugar-manufacture in India, the Tariff Board proposed, in 1931, a protective duty of Rs. 7-4 as. per cwt. for seven years and a duty of Rs. 6-4 as. per cwt. for a further period of eight years. The Sugar Industry (Protection) Act of 1932 gave effect to the proposals of the Tariff Board. The excise duty levied on the local production of sugar in 1934 and the subsequent alterations made in the rates of duty in 1937 and 1939 had the effect of considerably reducing the protection granted to the sugar industry. ✓ Protection to sugar.

As a result of the encouragement given by protection, nearly 130 factories were started during the period 1932 to 1938. The total production of sugar in India was well above a million tons a year before World War II, and the imports of sugar into India became almost insignificant. It is also worthy of note that while, according to the estimate of the Tariff Board, the cost of manufacturing one maund of sugar in India was



Rs. 8-3 as. 1 p. in 1931, it became less than Rs. 6 per maund in 1938.

The phenomenal development that took place in the sugar industry within a period of seven years was a glaring instance of the success of the policy of discriminating protection. It, however, involved a considerable sacrifice on the part of the consumer, and it was incumbent on the mill-owners to increase their efficiency to the fullest extent so that the price of sugar might be brought down to a much lower level. The sugar-cane growers ought also to be able to derive a substantial benefit from the growth of the industry, and suitable steps should be taken to assist them.

Other industries.

Among the other industries to which protection was granted were matches (1928), heavy chemicals (1931), gold thread (1931), salt (1932), silk yarn and piece-goods (1934), etc. In the case of matches, however, the advantage was taken mainly by foreign capital and enterprise. The excise duty imposed on matches in 1934 reduced to some extent the protection granted to the industry. The protection of the salt industry ceased on the 31st March, 1938, when the Salt (Additional Duty) Act was allowed to lapse. In some cases, the claim for protection was turned down by the Tariff Board. Three of the most important of such cases were cement, coal, and petroleum.

It is needless to emphasise the importance of a policy of protection in a country like India, where a rapid development of industries cannot possibly be brought about by any other means. The value of the recommendations of the Indian Fiscal Commission (1921-22), restricted though they were in several respects, has by now been appreciated on all sides. The way in which some industries progressed under protection led people to hope that within a short time most of them would be able to stand on their own legs without the assistance of import duties on competing foreign goods.

2. INDIA AND IMPERIAL PREFERENCE

Early history.

We now come to an important practical question allied to, and yet different from, the one we have just treated. (From the eighties of the last century Imperial Preference came into great prominence as a subject of practical politics.) The idea of Imperial



Preference originated with that eminent statesman, Joseph Chamberlain. The reasons which influenced the advocates of Imperial Preference were partly economic and partly political. Economically speaking, the idea was that the British Empire, with its multifarious resources, must be a self-contained organic unit, each part of the Empire acting as an economic complement, as it were, of the other parts. On the political side, it was thought that the solidarity of the Empire and the Imperial sentiment would be greatly strengthened by a policy of 'give and take'. About half a century ago, Chamberlain had declared: "The establishment of commercial union throughout the Empire would not only be the first step, but the main step, the decisive step, towards the realisation of the most inspiring idea that has ever entered into the minds of British statesmen." The strength of these arguments was very greatly enhanced during the World War I, which revealed the weakness of the Empire's dependence on foreign countries for important commodities essential both for peace and war. At the same time, the Imperial sentiment, the pride of belonging to a great Empire received added emphasis in the tense atmosphere of the war. In 1917, the Imperial War Cabinet passed a resolution, later on approved by the Imperial War Conference, to this effect: "The time has arrived when all possible encouragement should be given to the development of Imperial resources, and specially to making the Empire independent of other countries in respect of food supplies, raw materials, and essential industries."

The subject of Imperial Preference had been formally put In 1902, before the Colonial Conference of 1902, when the principle had been for the first time recognised as one of general application. The chief points in the resolution passed by the Conference may be summarised as follows: A policy of inter-Imperial Preference would facilitate mutual commercial intercourse, and by developing the resources of the different parts, would strengthen the whole. On the other hand, however, the Dominions would only grant such preference on a purely voluntary basis as was consistent with their own economic interests, even to the extent of fully maintaining their own protectionist policy. The United Kingdom also, should, in her turn, try to reciprocate the preference as far as possible.



Steps taken
by the
Colonies
and the
United
Kingdom.

Canada was the first colony to give effect to the principle of preference. In 1897, Canada reduced her duties on British goods. In 1898, the preference was fixed at 25 per cent. of the ordinary rates, and it was extended to such British colonies as gave her a favourable treatment. In 1900, the preference was raised to 33½ per cent. In pursuance of the resolution of 1902, New Zealand and South Africa in 1903, and Australia in 1907 gave preference to the United Kingdom. Both in 1903 and in 1907, the United Kingdom definitely rejected a policy of preference, as it would involve a taxation of food. Thus, all the Dominions gave preference to the United Kingdom at such rates as they could, consistently with their own interests. Besides, New Zealand extended her concessions to the whole Empire, Canada to New Zealand, India, and the Crown Colonies, while Australia and South Africa adopted the principle of reciprocity with regard to the other parts of the Empire. But whatever the rate of preference, it was not allowed to interfere with the degree of protection considered necessary for the home industries. The United Kingdom, which had consistently refused to give effect to the policy of preference, at last adopted it in 1919 as a result of the resolution passed at the Imperial War Conference; and, without altering the general tariff policy, granted to the whole Empire preference to the extent of ½th or ⅓rd on nearly all dutiable articles.

Originally,
India not
interested.

In all the earlier discussions about Imperial Preference, India had been practically left out of account. In 1903, however, at the invitation of the Secretary of State for India, the Government of India discussed the question at some length, and concluded that India had very little to gain by joining a scheme of inter-Imperial Preference; and that she had a good deal to lose or risk. The subject was dropped for the time, as being outside the range of practical politics. But after World War I, the movement became a general one throughout the Empire. Most parts of the Empire either joined the scheme of Imperial Preference, or seriously considered the subject with a view to giving practical effect to the principle. India, therefore, found it difficult to ignore the movement. And from 1917 the question always presented itself to the Government of India in one form or another.



As a matter of practical policy, preference to Empire goods might be given by admitting Empire goods at lower rates of duties than non-Empire goods. Now, the economic effect of these differential rates would depend upon the varying conditions of supply of the articles affected. When the preferred country supplied only a fraction of the market, the result would be that prices would be affected by the higher rates, and the sacrifice of the consumer would only mean a subsidy to the Empire producer, without any corresponding gain to the Treasury. On the other hand, when the Empire goods supplied the major portion of the article affected, the result would be that the prices of all articles would be affected by the lower rates, with the likelihood that the preferred producer might ultimately capture the whole market. This involved loss not to the consumer, but only to the non-favoured foreign producer.

Economic effects of preferential duties.

In 1920, a small measure of Imperial Preference was introduced in India by the backdoor when an export duty on hides and skins was levied, the rates of the duty on exports to Great Britain being fixed at a lower level than on exports to other countries. The issue regarding Imperial Preference was examined carefully by the Indian Fiscal Commission in 1921-22. The Commission were "impressed by the almost complete unanimity with which Indian witnesses opposed the principle of Imperial Preference". The reasons for this opposition were threefold: ~~it~~ was feared that Imperial Preference might diminish protection ~~to~~ that it might put a heavy burden on the Indian consumer for granting a bounty to the British manufacturer, ~~and~~ that it might affect the fiscal autonomy of India. The Minority Report strongly opposed any preference to the British Dominions so long as these retained anti-Asiatic laws on their Statute-Books.

Indian Fiscal Commission's view.

(The move towards Imperial Preference was slackened down after the publication of the Report of the Fiscal Commission in 1922.) But, in spite of the refusal of the legislature to be a party to any scheme of Imperial Preference, an advantage was granted to England when differential duties were imposed on standard specification steel and other sorts of steel. Standard specification steel came mainly from Great Britain and lower duties were imposed upon its imports. Thus, in effect, if not in principle, the policy of preference was adopted in 1927.)

Imperial Preference by the back-door.



Imperial
Confer-
ence, 1930.

Ottawa
Conference,
1932.

The Imperial Conference, that met in London in 1930, raised again a demand for uniting the different units of the Empire into some sort of a *Zollverein* by means of mutual grant of preferences and of raising duties on imports from non-Empire countries. The culmination of these efforts took place at Ottawa in 1932, when delegates from all parts of the Empire met to devise ways and means for a scheme of Empire Preference. England at first used to be somewhat cold regarding all preference proposals, but, at Ottawa, a complete change of attitude became apparent. The decline in the export trade of England and the gradual invasion of the English markets by goods from other countries led the National Government to adopt drastic measures like the Abnormal Importation Customs Duties Act of 1932. The situation in which England found herself in 1932 made her desire earnestly a scheme of preferences that would expand her export trade and also shut out the rivals from her own markets.

The
Ottawa
Agreement.

The Agreement between the Indian and British delegates was entered into on the 20th August, 1932. The United Kingdom undertook to give free entry to certain classes of Indian goods, e.g., cotton and jute manufactures, tanned hides and skins, non-essential vegetable oils and sandalwood oil, rice, groundnut, coffee, tobacco, tea, teakwood, pig lead, magnesite, magnesium chloride, etc. The United Kingdom also agreed to retain all existing preferences and to impose a 10 per cent. duty on foreign linseed. The British delegates further promised that their Government would "co-operate in any particular scheme agreed to by the United Kingdom cotton industry and the Indian growers for promoting a greater use of Indian cotton by Lancashire".

On the other side, India promised to grant a $7\frac{1}{2}$ per cent. preference to motor vehicles (other than motor cycles) coming from the United Kingdom, and a 10 per cent. preference to a number of articles, including building and engineering materials, chemicals, drugs and medicines, hardware, instruments, apparatus and appliances, leather manufactures, aluminium, copper, lead, german silver manufactures, paints, paper, stationery, and rubber products, including tyres and cycles tyres. The preferences to these goods would, however, be subject to any scheme of protection undertaken in India. The Indian delegates agreed



to grant preference to another group of articles without any reservation regarding protection of Indian industries. There were also other provisions regarding the grant of preference to cotton textiles and iron and steel goods coming from the United Kingdom.¹

Indian public opinion had been opposed to such preferential schemes for a long time, and it was only natural to expect that the Ottawa Agreement would be severely criticised. The apologists for the Agreement argued that the intensity of the trade depression and the growing tendency towards economic nationalism had considerably affected India's trade, and that without a preferential policy India's trade would gradually become still smaller. India's exports, they pointed out, were being shut out from foreign countries and consequently India should willingly agree to a scheme that would retain for her exports a secure market. It was also urged that, even if India would not gain much by joining the preference scheme, she would lose much by not joining it, and, therefore, it would not be practical wisdom to denounce and reject the Ottawa Scheme of preferences.

The
Ottawa
Agreement
and Indian
public
opinion.

On the other side, the defects of the Agreement, both as regards principle and details, were easily discernible. After the Agreement had been in operation for three years, it became easy to point out that the claims of its supporters had not materialised. The expansion of Indian export trade attributable to the preferences granted by England was not considerable, and in many cases there had taken place only a diversion of trade from non-Empire countries to the United Kingdom.

Defects
and draw-
backs of
the Agree-
ment.

In fact, the advantage gained by England from the Agreement was much greater than the advantage gained by India. During the period from 1931-32 to 1934-35, Indian exports of preferred articles to England had increased by 7½ per cent., while British imports of preferred articles into India had increased by 34 per cent. On the other side, "as regards articles *not enjoying preference*, the imports into the United Kingdom of Indian goods had increased by 39·7 per cent., while imports into India of United Kingdom goods not enjoying preference had increased

¹ Report of the Indian Delegation to the Imperial Economic Conference, Ottawa, 1932, Appendix E.



by only 14·4 per cent."² This was sufficient proof of the inefficacy of the Ottawa Agreement from the standpoint of the Indian trade interests. The figures regarding the imports into the United Kingdom of non-preferred Indian goods proved that, even if India had not joined the preference scheme, she would not have lost much.

✓ The diversion of trade caused by the Agreement involved a two-fold danger: in the first place, it was feared that this would lead to a contraction of markets for Indian goods, not only for the time being, but also for the future; secondly, by limiting competition among the countries buying Indian goods, it would place India at a disadvantage as regards the terms of trade. The excessive dependence upon one market might easily prove disastrous to the country.

It has also to be remembered that India's trade with non-Empire countries had for a long time been more important and of greater value than her trade with the Empire countries. ✓ It would be undesirable for India, therefore, to risk any retaliation from non-Empire countries, only in return for a remote possibility that there might arise some benefits from preference. Further, the Ottawa Agreement did not in any way help to increase the export-surplus required for meeting India's sterling obligations. Lastly, the Agreement was unsatisfactory from the standpoint of India's public finance, as it involved a substantial loss of revenue in the shape of customs duties.

Assembly
refuses
continuance,
1936.

These considerations weighed heavily with the members of the Indian Legislative Assembly who refused in 1936 to sanction the continuance of the Agreement. During the two following years, negotiations went on between British official and trading interests on the one side and an Indian delegation led by Sir Muhammad Zafrullah Khan, Commerce Member of the Government of India, for a new agreement between Great Britain and India. No agreement, however, was arrived at.

Fresh
Agreement,
1939.

In March, 1939, fresh proposals for an agreement were placed before the Central Legislature, and they were given effect to in spite of the opposition of the Assembly.¹ Time will show the beneficial or harmful character of this Agreement.

² *Vide* Dr. P. N. Banerjya's Speech, *Legislative Assembly Debates*, 20th March, 1936, p. 3328.



3. BILATERAL TRADE AGREEMENTS

A new feature of the fiscal policy of India during recent years has been India's participation in bilateral commercial treaties. The years of depression led many countries in Europe and America to regulate their volume of trade by quota or clearing arrangements with one another, and international trade in recent years has come more and more to resemble direct barter of goods between two countries. The first bilateral agreement in which India was concerned was the unofficial 'pact', known as the Mody-Lees Pact, between the representatives of Lancashire and Bombay textile industries. The 'pact' was signed in Bombay on the 8th October, 1933. It was agreed (i) that though the Indian cotton mill industry needed all-round protection, yet it required a higher level of protection against non-British imports than against British imports, (ii) that the Government of India would reduce the surcharge on import duties, (iii) that the duties on British cotton yarns and artificial silk goods would be lowered, and (iv) that the British Textile Mission would recommend a more extended use of Indian raw cotton in Lancashire.

Mody-Lees
Pact 1933.

The Agreement was apparently one-sided. Indian textile interests were not represented fully, and India had to grant definite concessions in return for only a declaration of the intention to use larger quantities of Indian raw cotton. Official approval was, however, given to this 'pact' by the Indian Tariff (Textile Protection) Amendment Act of 1934. After a Tariff Board enquiry in 1936, the duties on cotton piece-goods coming from Lancashire were substantially lowered.

The Ottawa Agreement provided for a negotiation for settling certain lines of policy regarding Indo-British trade. An Indo-British Trade Agreement was arranged in 1934 and signed in January, 1935. This Agreement, after enunciating certain broad principles regarding the need for protection and for customs revenue in India, provided that protection would be granted only to the extent necessary for equalising costs, and so, whenever possible, lower rates of duty would be imposed upon British

Indo-British
Trade
Agreement,
1935.

¹ Vide *Legislative Assembly Debates*, March, 1939.



goods than upon other goods. The Government of India also promised to allow British industrialists full opportunity to present their case whenever the Tariff Board would undertake any enquiry regarding protection of an Indian industry. The United Kingdom Government, on the other hand, promised to develop the importation of Indian raw materials and semi-manufactured goods, particularly of raw cotton. They also undertook to allow Indian pig-iron to enter the United Kingdom duty-free so long as India would not raise her duties upon British imports of iron and steel.

Indian business men criticised this Agreement on the following grounds: first, their views had not been considered, and secondly, this Agreement, like the Mody-Lees Pact, gave definite advantages to British without securing anything substantial for India. It was also pointed out that the Agreement would restrict the powers secured by the Legislature under the Fiscal Autonomy Convention of 1923.

Indo-
Japanese
Agreement,
1934.

(The other important country with which commercial arrangements were made is Japan. In 1933-34, there were substantial increases in the import duties upon Japanese cotton goods. Japan retaliated by organising a boycott of Indian raw cotton. It was felt, however, on both sides that a mutual agreement would be the proper solution of the problem. Therefore, a Japanese delegation was invited to come to India. After a protracted period of negotiation, the Indo-Japanese Trade Agreement was signed in January, 1934. By this Agreement, the two countries extended to each other the most-favoured-nation clause but retained the right of adopting countervailing measures necessitated by fluctuations in the rupee-yen exchange. Under this Agreement, the maximum customs duties on Japanese piece-goods were fixed and Japan agreed to purchase more Indian raw cotton.

Although the terms of the Agreement were quite definite, it was criticised on the ground that Japan had secured the greater part of the advantage in the bargain. Japan took advantage of the most-favoured-nation clause, and began to send to India a large quantity of manufactured products. The provision, limiting Japan's exports of cotton goods to India, was circumvented by the export in huge quantities of made-up cotton garments which



did not come under the terms of the Agreement. As regards Japan's purchase of Indian raw cotton, Indian publicists were of opinion that the minimum ought to have been placed at a higher level.

The Indo-Japanese Trade Agreement of 1934 expired in 1937, and a new Agreement was entered into on the 12th April of that year. This Agreement secured to India terms more favourable than the earlier one, and it was to have effect till the 31st of March, 1940. Under this Agreement, Japan was permitted a net export of 283 million yards of cotton piece-goods annually against purchases of Indian raw cotton of 1 million bales. Exports to India of piece-goods might be increased to a maximum of 358 million yards, if purchases of raw cotton reached 1½ million bales.

Indo-Japanese Agreement, 1937.

Bilateralism, although desirable in principle, is not free from difficulties. It may in some cases lead to the squeezing out of triangular or multi-angular trade. For a country like India, requiring every year an export-surplus, a quota-system carried too far may result in a diminution or even an elimination of the surplus. There is, however, justification for agreements with those countries that import less from India than they export to her and with others with whom permanently stable trade-relations may be desirable. For instance, a trade-agreement with the U.S.A. is likely to prove beneficial to both the countries.

Extension of bi-lateralism.

4. PROTECTION OF INDUSTRIES DURING AND AFTER THE WAR

During the Second World War, many new industries were started or developed to meet the urgent requirements of the army and the civilian population. In the absence of imports from foreign countries, these newly-established Indian industries were able to get the whole market for themselves. Some of these industries were considered essential by the Government for urgent defence or general civilian requirements and, as early as 1940, the Commerce Member announced on the floor of the Legislative Assembly that industries which would be started during the War would be protected, if and when necessary, provided they were organized on sound lines. During war-time, such industries received automatic protection due to the operation of direct methods of import control, necessitated by foreign exchange and shipping space considerations. But

Second World War.



Tariff
Board in
1945—

when the termination of the War was within sight, the Government of India felt it necessary to chalk out their post-war industrial policy and in April, 1945, they announced their intention of constituting a Tariff Board to investigate into the claims for protection or assistance to war-time industries. ~~It~~ was realised in every quarter that the Triple formula, adumbrated by the Fiscal Commission of 1922, was too rigid in its application. The duty of the Government to consolidate the broader base which Indian industry had gained during the War was being emphasised on all sides. Accordingly, the Government had to liberalise considerably the conditions for the grant of protection. The Tariff Board, constituted in 1945, had two considerations to bear in mind when investigating the claim for protection of any industry:

(1) that it is established and conducted on sound business lines, and

(2) either, (a) that having regard to the natural and economic advantages enjoyed by the industry and its actual or probable cost it is likely, within a reasonable time, to develop sufficiently to be able to carry on successfully without protection or State assistance;

or (b) that it is an industry to which it is desirable, in the national interest, to grant protection or assistance and the probable cost of such protection or assistance to the community was not excessive.

an *ad hoc*
body.

This Tariff Board worked essentially as an *ad hoc* body and the period of protection to be granted was also limited to three years. The total number of cases which were referred to the Board was 49. Within a period of 18 months, the Board reported on 42 cases, including 4 cases of industries which had already enjoyed protection before the War.

Tariff Board
reconstituted
in 1947.

~~It~~ In November, 1947, the Tariff Board was reconstituted for a period of 3 years with the following two additional functions:

(i) to report to the Government, as and when required, factors which led to increase in the cost of production of Indian manufactured goods as against imported articles, and

(ii) to advise Government, as and when required, on measures whereby internal production may be secured on the most economical basis.



During the last three years, this Tariff Board has examined the claim for protection of those industries which had not yet been fully examined by the previous Board and also a few new cases. The Board was required to examine the need for continuance of protection to industries which were protected before the War and also to those war-time industries which had been given protection in 1946 for 3 years only. As a result of this review, protection to the cotton textile industry was discontinued with effect from 1st April, 1947. The reasons for this discontinuance, as set forth in the Tariff Board's report, are as follows: (1) the industry has emerged from the War with a very strong financial position and substantial sums have been set aside either as reserves or as compulsory deposits with the Government; (2) there is no prospect in the near future of the Indian textile industry being undersold, in the face of the world shortage of cotton textiles and the virtual disappearance of Japan as a competitor in this field. On similar grounds, protection has been withdrawn from the paper industry and the iron and steel industry which were so long on the protected list. An assurance, however, was given in all these cases that, should competition revive, a fresh examination of their requirements will be undertaken without undue delay.

Protection to cotton industry discontinued.

Iron and Steel and Paper protection withdrawn.

As regards industries started during the War, the Tariff Board had to find out which of them possessed potentialities for surviving the artificial conditions created by the War. About 40 industries of this category have been picked up for protection, the more important of these being machine tools, grinding wheels, alloy and other kinds of special steel, steel-bailing hoops, ferro-silicon, bichromates, stearic and oleic acid, dry battery, electric motors, plywood and tea chests, steel pipes and tubes, aluminium, calcium chloride, calcium carbide, starch etc.

Forty war industries protected.

As a general rule, the Tariff Board favoured protection mainly through import duties, because they were anxious to preserve price competition. But in certain exceptional cases, other methods of protection, such as import quotas or even total prohibition of imports, have been recommended.

Import duties favoured—other forms of protection granted in special cases.

As more and more industries came to be included in the protected list, the Government considered it necessary that



Resolution
of the 6th
August,
1948.

continuous watch over the progress of protected industries should be kept by the Tariff Board. Accordingly, a resolution was published on 6th August, 1948, in which the Tariff Board was authorised to conduct enquiries as and when necessary, on the effect of the protective duties or other means of assistance and to advise Government on the necessity or otherwise of modifying the protection or assistance granted. The Tariff Board was required, as and when directed by Government, to conduct enquiries into the cost of production of a commodity produced in the country with a view to determine its price, suggest anti-dumping measures, undertake studies on the effects of tariff concessions granted by trade treaties and to keep a watchful eye on the formation of combinations and monopolies in the industries which enjoyed protection. These additional functions of the Tariff Board were considered necessary in the light of criticisms about its working in the past.

It was being increasingly recognised that the working of the Tariff Board could not be satisfactory so long as the long-term fiscal policy of this country was not clearly laid down by a new Fiscal Commission.

5. FISCAL COMMISSION, 1949-50

The Fiscal Commission of 1921-22 was charged with a simple task. It was called upon to examine the most appropriate tariff policy for India in an economic setting in which free trade was the accepted policy and in which a tariff was to be resorted to only where, for special reasons, deviation from the accepted policy was needed for the encouragement of particular industries. Besides, international commercial relations had not yet been seriously affected by any major restraints on trade other than tariffs, while purposive State action to foster and develop the entire economic life of the people was unknown in this country. In this economic context, fiscal policy became almost indistinguishable from tariff policy. But this policy was inadequate in the present circumstances and the need for a new fiscal policy has been keenly felt. Therefore, in April,

Changes
in circum-
stances.



1949, the Government of India appointed a Fiscal Commission with the following terms of reference¹:

(1) to examine, in consultation with all the interests concerned, the working of the policy of the Government of India with regard to protection of industries since 1922, when the last Fiscal Commission reported; and

Appoint-
ment of the
Fiscal Com-
mission.

(2) to make recommendations as to—

- (a) the future policy which the Government should adopt in regard to protection to and assistance of industries, and the treatment and obligations, of the industries which may be protected or assisted;
- (b) the machinery required to implement such policy and
- (c) any other matter having direct bearing on the effective implementation of this policy.

(3) In considering these issues the Commission will be free to distinguish between short- and long-term aspects of the problem and also advise, in the light of the country's requirements, how far it would be desirable to undertake international obligations of the kind involved in the General Agreement on Tariffs and Trade or the Charter of the International Trade Organisation.

The Commission observe that the case for protection to industries in India no longer required to be argued from the first principles and that the old conception of protection as an alternative of commercial policy has long given way to a more pragmatic approach. (The Fiscal Commission approach their task from a new angle of vision) and lay down new principles of protection. (They observe at the outset that Tariff protection is primarily a means to an end—one of the instruments of policy which the State must employ to further the economic development of a country. The protection of industries should be related to an over-all planning of economic development—) otherwise there may be unequal distribution of burden and unco-ordinated growth of industries. However, until such a plan

Principles
of protec-
tion.

¹ Indian Trade Bulletin, August 15, 1950.

² The Commission consisted of: Mr. V. T. Krishnamachari (Chairman); Dr. B. N. Ganguli; Mr. B. M. Birla; Mr. M. Ananthasayanam Ayyangar; M.P.; Mr. Chaudhry Mukhtar Singh, M.P.; Mr. Khapdubhai Desai, M.P.; Mr. Ambalal Sarabhai, with Mr. D. L. Mazumdar, I.C.S. as Member-Secretary.

has been approved, protection to industries should continue to be granted on the principles given below:

Industries
under the
planned
sector.

(A) Industries, coming under the planned sector immediately, may be grouped under the following classes:

- (1) Defence and other strategic industries,
- (2) Basic and key industries and
- (3) Other industries.

Industries falling under group (1) should be protected, whatever the cost may be, on national consideration. Regarding basic and key industries coming under the plan, the Tariff Authority will decide the form of protection and the quantum thereof and will—

- (i) lay down terms and conditions for the grant of protection or assistance and
- (ii) review from time to time the extent to which these conditions have been or are being complied with by the industries.

As regards the third category, the Commission recommend that the criteria to be applied for granting protection should be as follows:

“Having regard to the economic advantages by the industry or available to it and its actual or probable cost of production, it is likely within a reasonable time to develop sufficiently to be able to carry on successfully without protection or assistance and/or

it is an industry to which it is desirable in the national interest to grant protection or assistance and, having regard to the direct and indirect advantages, the probable cost of such protection or assistance to the community is not excessive.”

Industries
not in-
cluded in
plans.

(B) As regards industries, which are not included in approved plans, the Tariff Authority should examine the claim for protection on the criteria set out above and submit its recommendations to the Government.

Where no
plan exists.

C. Where no approved plan exists, the position should be as follows:

- (i) Defence and other strategic industries. They should be given protection whatever the cost may be, on national considerations;

- (ii) As regards other industries, the criteria to be applied will be the same as those set out in Section A above.¹

Some specific issues of protectionist policy—

(a) Local availability of raw materials should not be a condition for the grant of protection, if the industry possesses other economic advantages, *e.g.*, internal market, availability of labour, etc. Conditions not be insisted upon.

(b) It seems to the Commission legitimate to take into account a potential export market in order to determine the comparative advantages of an industry vis-a-vis its rivals. Potential export market.

(c) As for the condition regarding the ability of an industry to meet the domestic demand, the Commission thinks that, although ordinarily a protected industry should be eventually able to satisfy the needs of the entire domestic market, this should not be laid down as a condition of grant of protection and in the short period it would suffice for the Tariff Authority to consider the potentialities of the industry for expansion so as to cover a sizeable portion of the internal market within a reasonable period of time. Ability to meet domestic demand.

(d) In regard to protection to industry which produces the raw materials or stores of other industries, the Commission observes that industries using the products of protected industries may require compensatory protection. ~~The~~ type of compensatory protection that may be needed in a particular case will depend on Industries producing raw materials.

(a) the type of raw materials or stores produced,

(b) the nature of the additional burden likely to be imposed,

(c) the proportion that the cost of raw materials or stores bears to the total cost of manufacture of the finished product, and

(d) the nature of demand for the finished product and other connected considerations.

(e) As for protection to new or embryonic industries, the Commission think, that the need for an assurance of protection, prior to the actual establishment of an industry, is particularly New and embryonic industries.

¹ Para 161.

strong in those industries which require heavy capital outlay or a high degree of specialisation in personnel and plant equipment and are likely to be subjected to intense competition from well organised and established producers abroad. In such cases the Commission recommend that the Tariff Authority should be asked to examine the facts and estimates relating to the industry and the nature of foreign competition that it is likely to encounter and then advise Government as to the protection or assistance needed by the industry in the light of the conditions laid down in paragraph 161.

Agricultural
protection.

(f) In regard to agricultural protection, the Commission recommend that, if national interests so require, agricultural products may be protected but in granting such protection it should be stipulated that

- (1) the number of commodities should be kept as small as possible,
- (2) the principle of selection should be
 - (a) the importance of the raw materials of industry that they provide and
 - (b) the volume of employment that they offer,
- (3) protection should be on an interim basis limited to short periods—never more than five years at a time,
- (4) a programme of agricultural improvement must accompany the scheme of protection and form an integral part of it, and
- (5) it should be the special responsibility of the Tariff Authority to report to Government annually on the progress of technological improvements in the production of these commodities.

Central
Excises.

(g) On the subject of internal taxation and protection they recommended that (i) on broad grounds, the levy of central excises on protected articles is inadvisable and it should be resorted to only where it is needed for budgetary purposes and no alternative sources equally suitable are available.

Sales Taxes.

(ii) As for the levy of sales taxes by States, the Commission recommend that most of the complaints regarding the imposition of sale taxes should be removed under the provisions of Article 286 of the Constitution which regulates the levy of Sales Taxes by the States.

(iii) In respect of the levy of cesses the Commission observe that for promoting research it is unobjectionable so long as the rates are moderate and the whole of the tax is actually spent on research and not diverted to other purposes. Levy of cesses.

(iv) On the question of fixation of prices of raw materials the Commission consider it legitimate that the Central Government should fix the prices of raw materials of protected industries by Central legislation whenever such price fixation becomes necessary. Legislation by individual States for this purpose leads to difficulties. Prices of raw materials.

The Commission also recommend the establishment of a new, permanent and statutory Tariff Commission, with enlarged powers and functions, the stricter enforcement of the obligations of the protected industries, the setting up of a bureau of consultants and consumers' representatives for effective and efficient management of State enterprises, the starting of an Indian Economic Service, the development of banking facilities, the determination of priorities of economic development, the adoption of a dynamic policy for cottage industries, the ratification of the Havana Charter provided the U.K. and the U.S.A. do so, and initiation of talks for a revision of the Indo-British Trade Agreement of 1939.

The Report of the Fiscal Commission marks an important stage in the development of the economic policy of the country. For the first time a comprehensive policy document makes an integrated approach to the issues concerned with the place which protection should occupy in the economic development of India in accordance with the directive principles embodied in the Constitution of India and consistently with the Industrial Policy Statement of April, 1948.

India has committed herself to a policy of protection. It is to be hoped that the power already acquired by the Government of India and Parliament will be exercised without creating vested interests and without stereotyping inefficient methods of production. The interests of the people of India as a whole, and not those of any particular section of it, should be the concern of Parliament. Conclusion.

CHAPTER XXXIII

THE UNEMPLOYMENT PROBLEM

1. THE EVIL OF UNEMPLOYMENT

"The greatest evil of unemployment", says Lord Beveridge, "is not physical but moral, not the want which it may bring but the hatred and fear which it breeds." Employment, however, is not wanted for the sake of employment, irrespective of what it produces. "Employment is wanted," to quote Lord Beveridge again, "as a means to more consumption or more leisure, as a means to a higher standard of life. Employment which is merely time-wasting or merely destructive, will not serve that purpose. Nor will it be felt as worth while. It must be productive and progressive."

A difficult problem.

Economists have devoted a considerable amount of attention to the study of unemployment and its remedies, and governments in most countries have also tried to take steps towards reducing the severity of the miseries caused by it. It has not, however, been possible for anybody up till now to suggest a policy that would prevent unemployment from coming into existence, and writers like the late Lord Keynes have emphasised the fact that 'involuntary unemployment' is an inevitable result of an economic system where the rate of interest and the rate of investment are allowed to be determined by uncontrolled competition.

Agricultural and industrial unemployment.

It is difficult to measure the precise extent to which the evil of unemployment exists in agricultural and industrial occupations in India. The estimate has been made in some quarters that the number of persons unemployed in India would be about 50 millions. It is impossible to vouch for the accuracy of such an estimate, and it has also to be borne in mind that the number of persons who may be described as 'under-employed', that is to say, employed for only a part of the year, or a part of the week, or a part of the day, is very large. The cultivators mostly remain idle for a considerable part of the

year, and this fact has to be taken into account in estimating the total volume of unemployment in the country.

In the field of industries, the difficulty of measuring the extent of unemployment is very great. Until recently, there was no permanent labour-population in India, and the unemployed labourers generally used to go back to the villages and help to increase the pressure on the land. Even now, only a small percentage of the total population of India is engaged in factory work, but this percentage is growing steadily year by year.

Nothing has practically been done in India by the Government for the relief of unemployment among the cultivators and agricultural labourers. Nor will any patch-work remedy be able to achieve much. A strenuous effort to regulate the entire system of agricultural production and to increase the demand for agricultural products can bring about a better state of affairs. But the most important and effective solution can come only with a diminution of the pressure on the land. The remedy of the problem of rural unemployment lies thus, partly in the improvement of agriculture and the development of small-scale industries, but mainly in the absorption of greatly increased numbers of people in large-scale manufacturing industries.

Discussions regarding unemployment in this country often centre round the problem as it affects the middle class. By the term 'middle class' is generally meant the class the members of which are educated at least to some extent and are dependent upon some salary-yielding jobs for their livelihood. In recent years, the extent of unemployment among members of the middle class has been enormous, and the problem has for some time past engaged the attention of the Government and of the public.

Middleclass
unem-
ployment.

Middle-class unemployment is brought about by a number of factors, social and economic. Lack of initiative and enterprise, unwillingness to enter occupations requiring manual labour, caste-prejudices against certain lines of employment, early marriage, and increase of population are some of the factors causing unemployment. The educational system is often blamed because it lays too much emphasis upon 'academic learning' and puts a discount on vocational training. Facilities

Causes of
middle-
class un-
employ-
ment.

for vocational and technical training are inadequate, and consequently, the universities are crowded with students who have to try to become graduates because they have nothing else to do.

Effect of depression.

Middle-class unemployment is almost perennial but it is periodical in some cases. The depression of 1929-33 was an instance of the latter kind. Whenever there is any retrenchment in the Government offices and mercantile firms the educated young men have to bear the full brunt of such a policy. /Coming to the more permanent aspect of the question, it may be pointed out that the inadequate development of industry, commerce, shipping, banking, insurance, and other avenues of employment has been one of the main causes of unemployment./ If industries were in a developed state they could have provided employment for a large number of educated persons. In this respect the situation in India has been far from desirable. In the past, when the number of Indian concerns was comparatively small, the foreign concerns gave very little encouragement to Indians except in the lower ranks. Now however the situation has considerably changed.

Provincial enquiries.

/In 1922, a Committee was appointed by the Government of Bengal to deal with the problem of middle-class unemployment./ It made some valuable recommendations, but no effect was given to them. /In 1926, the Government of India issued a circular to the Provincial Governments requesting them to consider practicable remedies for the problem of middle-class unemployment./ Committees were accordingly appointed in many provinces and various suggestions were made. The Madras Committee emphasised the need for diverting the educated young men to the villages mainly by establishing farm colonies. The idea behind farm colonies is subject to two limitations, namely, that in many provinces vacant cultivable land is not available, and that it is difficult to create the 'rural bias' without which such a policy cannot be expected to materialise.

Suggested remedies.

Industrialisation, the most effective remedy.

/The most effective solution of the problem can come from a more rapid industrialisation of the country. In recent years, industrial concerns, banks, and insurance companies have given employment to quite a number of educated young men. But there is even now an immense scope for the development of



large-scale industries, commercial and shipping concerns, and financial institutions; and, when these are developed, a large number of educated persons may be absorbed by them. The non-Indian firms should employ Indians in the higher positions under them. The larger employment of Indians in the various higher services of Government and the opening of officers' ranks in the Defence Department of the country to a greater extent have helped substantially to ease the situation. The development of small industries can also help to some extent in reducing unemployment. Small industries can be started in district or subdivisional towns, or even in villages.

Up till now the Government has not done much to bring relief to the educated unemployed persons. In times of depression, when there is temporary unemployment, the Central Government as well as the Provincial Governments should try to create employment for the people. The late Lord Keynes and other eminent economists advocated the undertaking of construction of public works in periods of slump and unemployment, if necessary, even by deliberately unbalancing the budget. As a matter of fact, such a policy was adopted in the United States, Great Britain, Germany and some other countries during the depression of 1929-33. But no such deliberate step has ever been taken in India. The opportunity for adopting beneficent emergency measures during the depression was completely missed by the Government, and all that they did was to launch a scheme of retrenchment and reduction of salaries, which further aggravated the situation. Public works.

An exhaustive enquiry into the unemployment problem was carried out in 1935 in the United Provinces by a Committee under the chairmanship of Sir Tej Bahadur Sapru. Many of the recommendations of the Committee are applicable to all the provinces besides that to which these related. A few of their suggestions may be noted here: Municipalities and District Boards should employ qualified engineers and doctors in larger numbers than they do at present; the Government should extend the scope of operation of the public health department and thus provide employment for doctors; there should be a greater specialisation of functions among lawyers; the rule regarding retirement should be strictly enforced; large- The Sapru Committee, 1935.



scale and small-scale industries should be stimulated; primary education should be extended so as to give employment to more teachers; the High School Examination should be split up into two examinations—a lower one qualifying the candidates for Government service as well as for technical and commercial education, and a higher one qualifying for university education; medical practitioners should be encouraged to settle in villages by the grant of Government subsidies; the courses in schools and colleges should be more diversified.

Lower
age-limit
for Gov-
ernment
service.

A useful recommendation of the Sapru Committee regarding the constitution of Appointment Boards for university graduates has been given effect to in Calcutta, Dacca, and some other universities. The Calcutta University Appointment Board has been doing some useful work by bringing university graduates in touch with commercial houses.

But one recommendation of the Sapru Committee has been subjected to severe criticism throughout the country. They argued that the Government was wrong in insisting on a high educational qualification for entrants to the subordinate services and recommended that appointments to such services should be made before a candidate would reach the age of 19 through an examination held all over the country. The adoption of this recommendation would mean that every young man would have to decide at the early age of 17 or 18 whether he would enter Government service. Besides, the Government would be deprived of the services of all those who in their early youth could not persuade themselves to give up all chances of getting a higher education. The Government of India issued a circular letter to the Provincial Governments in January, 1938, inviting their opinion on the proposal to reform the methods of recruitment to Government service by lowering the age-limit of admission to 19 and holding an examination for entrants at the age of 17. Most of the Provincial Governments, however, signified their disapproval of the proposal, and the Government of India dropped the idea.

Employ-
ment
creates
employment.

It has to be borne in mind that there is no one sure way of solving the problem of unemployment. But industrialisation, rural reconstruction, economic planning, educational reforms, technical training will all contribute to the solution of the

problem. It is also worth noticing that employed persons themselves give employment to others through the expenditure on consumption-goods. The relation between secondary employment and primary employment has been studied by Kahn, Keynes, and Colin Clark in their analysis of what they have named the 'multiplier'. In a country with a large number of persons with small incomes, the value of the multiplier is likely to be high, because a considerable portion of the increment of income will in such circumstances be spent on consumption-goods. Even a small increase in employment in India will in itself cause a further increase on account of the increased demand for goods and services coming from those employed at first.

2. RISE IN FACTORY EMPLOYMENT

The average daily number of workers employed in factories in the Indian Union (excluding Indian States, East Punjab, Bihar and West Bengal) in 1948, the latest year for which estimates are now available, was 1,496,648 as compared with 1,430,678 in 1947, showing an increase of 65,970 or 4·6 per cent. Compared with 1939, the pre-war year, when the total number of workers was estimated at 975,656, the figure in 1948 showed an increase of 498,524 or 48 per cent. In 1945 the last year of World War II, the number of workers employed in various factories was 1,519,952. This shows that in 1948, as compared with 1945, the number of factory workers was less to the extent of 23,304 or 1·3 per cent.

Number
employed
in 1948.

As compared with 1939, there were changes in the relative positions of the Provinces in 1948. Bombay, which held the second place in 1939, replaced West Bengal from its first place in 1947. In 1948 also, the latest year under review, excluding West Bengal,—the figures for which are not available,—Bombay continued to hold that place. The number employed in Bombay Province increased from 466,040 in 1939 to 737,460 in 1948. Thus, in 1948, among the provinces (excluding the Indian States, East Punjab, and West Bengal), the number employed in Bombay was the highest, Madras coming second with a total of 288,722, being closely followed by U.P. with 242,083.

Changes in
positions of
Provinces.



Rise in
employment.

Compared with 1947, the number employed in factories increased in Bombay, Madras, Orissa, U.P., Central Provinces and Berar, Assam and Delhi in 1948. But in 1947, although the number employed in factories in Bombay, Madras and Orissa increased compared to 1946, the employment figures for U.P., Central Provinces and Berar, Assam and Delhi diminished. Thus, in 1948, there was a general rise in employment in factories in most of the provinces of India. A comparative study of the figures for 1939, 1945, 1946, 1947 and 1948 shows that the increase in employment in the Provinces like Bihar, C.P., Assam, U.P., and Delhi was entirely connected with the war effort, while in the other Provinces the effect of war effort on employment was not comparatively very marked or significant. With the cessation of hostilities and gradual transition from war to peace, there was a great deal of reduction in employment in the first category of Provinces mentioned above. For example in Bihar, the number employed, which was 168,408 in 1945, declined to 138,990 in 1946 and further to 136,834 in 1947. Similar was the case with C.P. and U.P. up to the end of 1947. In the case of Bombay and Madras, the number employed in 1946 was less than in 1945, but in 1948, there was an increase in employment.¹

3. FULL EMPLOYMENT

Views of
eminent
economists.

While very little effort has so far been made in India to attain even the limited objective of reducing unemployment, some of the industrially advanced countries are placing before them the high ideal of Full Employment. Lord Beveridge and other eminent thinkers consider Full Employment² attainable while the conduct of industry, in the main, is confined to private enterprise. The preliminary step taken by the United Nations in this regard is worth noticing.

¹ *Indian Trade Bulletin*, Republic Inauguration and Annual number, February, 1950, p. 82.

² Lord Beveridge says: "Full employment does not mean literally no unemployment. . . . Some frictional unemployment there will be in a progressive society, however high the demand for labour. Full employment means that unemployment is reduced to short intervals of standing by, with the certainty that very soon one will be wanted in one's old job again or will be wanted in a new job that is within one's power."—*Full Employment*.



In response to a Resolution of the Economic and Social Council of the United Nations, adopted on August 11, 1949, a Report was written towards the end of 1949. This Report to the Secretary General of the United Nations is an important document; for, in a co-ordinate fashion, it analyses and makes prescription for domestic full employment, short-run stability in foreign trade and long-run equilibrium between the dollar and non-dollar areas.

U. N.
Committee's
opinion.

The proposed measures for the maintenance of domestic full employment can be summarised in four groups:

(1) measures to stabilise the level of investment, including encouragement to private investment and direct public enterprise;

(2) measures to stabilise, or to expand, the level of consumers' outlays, including 'built-in' stabilisers and a variety of fiscal supports to consumption;

(3) measures to avoid inflation, including a reversal of expansion techniques, if necessary, and institutional arrangements to avoid monopolistic exploitation by special groups of full-employment conditions;

(4) measures to stabilise employment and income in distinctively export industries, including subsidies to domestic consumption of their products and international price (or direct-income stabilisation) schemes, for primary products.

The suggested mode of operation of this programme is the following:

(1) That in addition to the full-employment target (which might be defined as a range) a 'signal' level of unemployment in cyclically sensitive industries be adopted.

(2) Upon the appearance of 'signal' unemployment for three successive months the government would be obliged to bring into play counter-measures consisting essentially in tax reductions, designed to reduce average unemployment to the mean of the target range.

(3) These automatic counter-measures are regarded as simply a part of the whole machinery of full-employment policy, which each country would develop in terms of its own peculiar problems and institutions. The application of the automatic counter-measures would symbolise that the programme as a whole had

failed to meet its full objective, and that further measures, quite possibly beyond the automatic measures, were required.¹

4. EMPLOYMENT SERVICE ORGANISATION

Origin.

2.

India was a signatory to the Unemployment Convention which was adopted at the International Labour Conference held at Washington in 1919. This Convention provided for the establishment of free public employment agencies and for the appointment of committees composed of employers and workers' representatives to advise on the functioning of these agencies, but she had to denounce it later on account of constitutional difficulties. It was not until July, 1945 when, with the end of the war in sight, a properly organised Employment Service was set up, as an experimental measure, primarily with the object of facilitating the orderly absorption in civil life of the large service personnel and war workers who had been set free.

Expansion
and re-
organisation
needed.

1.

Although we have now got the beginnings of a National Employment Service, it must be frankly admitted that the system now existing in India is not quite in harmony with the requirements of the Convention. But, properly expanded and adequately co-ordinated, the Employment Exchange Organisation can be harnessed to the best use of a planned economy. It may assist the execution of an accelerated programme of development and also provide the framework within which social security and social assistance schemes can be worked out.

Training
of labour.

One of the main defects of our labouring population is their lack of skill and training. If our labour productivity is to go up, more and expanded facilities for training must be made available. National wealth is produced by men manufacturing with their tools articles of consumption and use out of raw materials. Employment of human labour in the proper direction is, therefore, an important part of the national economy of every country. Employment of human labour may either be wasteful and unproductive or useful and productive. The attempt should be made in India to employ labour in the most productive manner possible. The subject is a vast one, but if

¹ *The Economic Journal*, June, 1950.



adequate steps are taken a tangible result can be achieved in the near future.

The main objectives of the Employment Service Organisation are the following: (1) to plan ex-service men and war workers in employment; (2) to increase the mobility of labour, territorial and occupational; (3) to substitute a free, impartial and scientific system of labour recruitment for the vicious system of recruitment through jobbers and contractors; (4) provision of the necessary machinery for the subsequent adoption of social security measures by the State and (5) ultimately to promote full employment.¹

Main objectives.

Responsibility for administering the resettlement and employment schemes of the Government are vested in the Directorate General of Resettlement and Employment. A number of Regional Directorates has also been created with suitable provision for planning, training, administration, publicity and collection of statistics. Prior to the partition of the country the Employment Service consisted of a Central Employment Exchange situated in New Delhi, nine Regional Exchanges, one in each region, and sixty Sub-regional Exchanges. As a result of partition seventeen exchanges went to Pakistan.

Organisations.

The main function of the Re-settlement and Employment Directorate is to tap new resettlement and employment opportunities and to examine how the various kinds of employment seekers can be fitted into these avenues of employment. The next important function is the provision of training for employment. Various technical training schemes for ex-servicemen and women as well as ordinary people have been inaugurated. A Central Institute for Training Instructors was established in 1948.²

R.

R.

Up to April, 1950 the number of registrations amounted to 35,15,309 and the number of placements totalled 8,82,712. The number of displaced persons included in the total of placements was 1,33,555.³

Registrations and placements.

¹ *Labour in India* (published by the Ministry of Information and Broadcasting), Ch. VII.

² Progress Report of the Directorate General of Resettlement and Employment for the year 1949.

³ *National Employment Service Statistics*, April, 1950.

Difficulties.

2.

The Employment Exchanges, as a new organisation, have had their full share of initial difficulties. They had to contend with deep-rooted prejudices and suspicions from many quarters. The employers have been indifferent and the employment seekers impatient. But the initial difficulties are being steadily overcome. Both the employers and employees are recognising the value of the system. But even now there is considerable reluctance on the part of the employers to notify their vacancies to the exchanges.¹

Rehabilitation.

The employment exchanges have now considerably widened their scope. After the rehabilitation of the major portion of the demobilised services personnel they were called upon to tackle the gigantic problem of resettling and re-employing the large number of unfortunate persons who, torn from their homes and hearths, migrated, naked and shivering, from Western and Eastern Pakistan to the Indian Union. The record of achievement of the exchanges in the two periods of national emergency has been fairly satisfactory.²

Three aspects of unemployment.

In India, the unemployment problem in the post-war years has three principal aspects: First, the economic under-employment among the rural population; secondly, the peculiar type of unemployment that is to be found among the middle classes to which intellectuals and other soft-handed workers belong; and, lastly, the widespread unemployment among the vast masses of displaced persons who have migrated from Pakistan to India.

As regards the first, the problem can be tackled by the planning of agricultural production. In this connection it is essential that cottage industries should also be revitalised. The unemployment problem among the middle classes can be solved in the long run by a reorientation of our educational system, so as to divert the talents and energies of the majority of would-be University graduates to more practical avenues of technical training and apprenticeship.³

¹ Source: Statement of Work performed by the Employment Exchanges in West Bengal.

² Article by Prof. A. P. Misra in the Employment News, September, 1949, pp. 43-44.

³ Article by Dr. N. Das in the Employment News, September, 1949, p. 6.



The resettlement of displaced persons is a problem which should be tackled on an all-India basis according to a well thought-out plan helping to adjust all categories of workers among the displaced persons to their new surroundings.

The need for vigorous state-action is urgent. Adequate Suggestions. arrangements should be made to collect statistics and information about the extent and the nature of unemployment, and the Central Government as well as the State Governments should R. adopt effective measures to combat the evil. Private enterprise — can never be expected to operate to the extent and the manner most desirable from the standpoint of the unemployed. It is because of this fact that the necessity of state-help is greater in this particular field than in any other.

CHAPTER XXXIV

ECONOMIC PLANNING

EARLY IDEAS

The post-war depression and the need for planning.

THROUGHOUT the nineteenth century, it was the prevailing idea in many countries that the development of industries should be the function of individuals, and that the state should not attempt in any way to interfere in any aspect of industry and commerce. The great war of 1914-18, however, marked the end of *laissez faire*, and in the post-war years there was some amount of control and regulation of industries in every country. It is now recognised on all hands that (the free play of private interests does not secure results that are most desirable from the social point of view.) When private individuals are left alone to decide how they will utilise the resources available, wastage of materials on one side and lop-sided development on the other are inevitable. Besides, trade cycles are essentially connected with the injudicious course of investment and monetary policy which a competitive economy entails. Therefore, (the need for control of the utilisation of the resources of the community and of the development of industries is beyond question in the present times.)

(Economic planning, however, denotes more than mere control and regulation. It implies a calculated effort on the part of the state to secure within a given period of time the maximum of well-being for the members of the community by the most economic allocation and utilisation of the available amount of resources. It is this sort of economic programme that was undertaken by Soviet Russia in 1928.) In the U.S.A., the Recovery Plan of President Roosevelt also provided an example of a deliberate attempt to neutralise the effects of the depression by industrial regulations and agricultural adjustments.

(The depression of 1929-33 emphasised the need for a planned economy to prevent the recurrence of such situations. (In a country like India, however, where the entire economic structure is in a backward state, and the average income and output are inordinately low, the necessity of planning is greater than in other countries.) In the previous chapters, the defects and the

shortcomings of the economic life of India have been analysed. If these defects have to be remedied, a well-defined programme of action is absolutely essential.

(In a sense, some amount of planning is already operative in India. Discriminating protection, restrictions on imports and exports, debt-legislation, regulation of banking, and labour laws are all different aspects of economic planning. But these programmes have been adopted without any definite or ultimate aim in view, and as a result they do not form parts of an organic whole. The administration of these are in the hands of different bodies, and thus no unified policy is as yet practicable.)

Some amount of planning already operative in India.

(A full programme of planning involves a marshalling of all available means for the attainment, within a time-limit, of some predetermined end.) On the one hand, therefore, it is necessary to collect full information about the resources available within the country and about the possibility or otherwise of increasing the supply of resources immediately. In this respect, we are at a disadvantage, because adequate statistics of our agricultural products, minerals, power-resources, capital equipments and the like are lacking. Dr. A. L. Bowley and Mr. D. H. Robertson, who were appointed by the Government of India in 1933 to suggest a scheme for an economic census of India, emphasised the need of reorganising the statistical service with a view to securing accurate information regarding national income and production. No scheme of planning can be launched unless a comprehensive knowledge of all the means of production available in the country has been acquired.

Lack of statistics and information.

The other important pre-requisite of planning is that the authority in charge of it should have in view a well-defined end which they are to attain within the time available. (There is a tendency to speak in vague terms whenever the question of the definite ends of economic planning comes in. It is, however, pleasing to note that in the midst of countless suggestions of a superficial nature, there have been a few attempts by discerning thinkers to put before the country some definite ideas regarding the practicable lines of economic planning.) Sir M. Visvesvaraya, for example, studied carefully the entire problem of planning, and suggested a ten-year programme for the whole of India. The schedule of developments sought to be secured by his pro-

Ends of economic planning.



gramme included the doubling of the national income and an increase in the output of all industries. The net value of the yearly production from industries was to increase five-fold in ten years, and during the same period the population supported by agriculture was to diminish by 20 per cent.¹ No programme of this kind can be absolutely perfect, but the value of such schemes lies in the guidance they can give to the formulators of practical policy.

Special
difficulties
in India.

✓ In India, special difficulties in the way of economic planning are many. (Planning involves a considerable amount of control over the economic and social life of the citizens.) (A difficulty arises in India on account of the large powers vested in the State Governments under the new constitution. A successful plan involves unified action by a central authority, and in this respect, the existence of autonomous States will make the administration of an All-India plan difficult.)

Financing of
planning.

These practical and constitutional difficulties may limit considerably the scope of a planned economy in India. (Another serious difficulty that will have to be faced is that of finance. Any scheme of development involves a huge capital expenditure and also a fairly large annual recurring expenditure) If new industries are to be developed, and raw materials and other resources are to be diverted from their present uses to uses socially more desirable, the preliminary capital programme will have to be heavy. Sir M. Visvesvaraya estimated that a comprehensive programme of development including a ten-year plan for the whole of India and five-year plans for the provinces will necessitate a capital expenditure of Rs. 500 crores and a recurrent expenditure of 10 crores of rupees annually. The recurrent expenditure would certainly have to be met by budget grants, and Sir M. Visvesvaraya suggested that 2 crores should be annually provided by the Central Government and the remaining 8 crores by the provinces in proportion to their population. The capital expenditure would have to be met by borrowing, and the interest and sinking fund charges should be met from the income secured from the industries developed. It is, however, doubtful whether a sudden increase in our public debt to the extent of Rs. 500 crores would be a practicable proposition.

¹ Visvesvaraya, *Planned Economy for India*, Bangalore, 1934, chap. xv.



If, therefore, a programme of economic planning has to be set in operation, the authority in charge of it will be faced with a number of obstacles. The conditions in the different parts of India are of such a varying character that it may sometimes be difficult to secure benefits to all areas at the same pace. The planning authority will, therefore, have to bear in mind the needs of all the provinces and it will have to secure improvements in agriculture, mining, trade, transport, and industries in such a way that a balanced development of different areas may be possible.

A new spurt to the discussions regarding economic planning was given in 1938 by the Indian National Congress under the presidentship of Sri Subhas Chandra Bose, which appointed a National Planning Committee under the chairmanship of Pandit Jawaharlal Nehru, to enquire into the possibilities of a planned economy in India and to suggest practicable schemes for securing the desired end. The Committee commenced work soon after its appointment and it issued, as a first step, a questionnaire to the Provincial Governments, Indian states, chambers of commerce, labour unions, and organisations of agricultural interests. The questionnaire was framed mainly with a view to eliciting opinion and gathering information regarding the objectives of national planning, sources of raw material, scope for development of production of different commodities, capital and labour supply, marketing and commerce, transport facilities, conditions of and fields for employment, facilities for technical training, sources of fuel, power, and energy, and other allied subjects.

National
Planning
Com-
mittee,
1938.

World War II however upset the original arrangements and it was not until 1946 that actual work was commenced in right earnest. No endeavour ought to be regarded as too great when the people sincerely desire a better economic structure than what prevails now. Every branch of our economic life calls for immediate improvement, and it is only a well-organised scheme of economic planning that can bring about the desired consummation within a short time. The difficulties that exist in the way of the adoption of a satisfactory programme of development have to be recognised, but these should not deter us from attempting to make improvements where improvements are possible, and to remove the obstacles by marshalling all the



powers we possess. We have allowed our economic structure to be shaped in a haphazard way for a long time, and now we have realised that such a process will not be able to bring about the amelioration we long for. Economic planning, in spite of the difficulties inherent in it, offers at least a possible solution, and any attempt in this direction ought to be welcome.

2. PLANNING DURING AND AFTER WORLD WAR II

There was no planned action in regard to the economy of India as a whole. Economic problems used to be dealt with compartmentally and little attempt was made to connect them in the context of a national policy. (The various ad hoc committees and commissions which reported from time to time, such as the Industrial Commission of 1916-18, the Fiscal Commission of 1921-22, the Agricultural Commission of 1926, etc., no doubt did much valuable preliminary work by way of investigation and research on problems affecting particular sectors of India's economy, but none of those bodies viewed the country's economic problems in their entirety or offered an integrated scheme of development of the entire economy.)

Congress
Committee
on
Planning.

(The essence of economic planning lies in the formulation of an integrated programme of development for the entire country in all the sectors of her economy.) It involves a simultaneous advance on all the fronts of the economic system for attaining certain well-defined aims by a fixed date. In the view of the Congress Committee planning was to be a ("technical co-ordination by disinterested experts of consumption, production, investment, trade and income distribution in accordance with social objectives set by organs representative of the nation")

The Second World War quickened thoughts on economic planning all over the world. Its staggering destruction of physical capital, toll of human life and grave unsettlement of economic systems everywhere set men a-a-thinking. The demand for a more equitable economic order assuring better living conditions for the common man was voiced forth from every part of the world. Such were the sacrifices inflicted upon the people during the war that Governments in many countries felt compelled to initiate plans for post-war reconstruction even when the issue of victory or defeat hung in the balance.



While the slogans of the First World War were mainly political, those of the last war were essentially economic, such as 'freedom from hunger', 'full employment', 'war on disease', 'a living wage for all', etc.

In June, 1941 the Government of India set up a number of Reconstruction Committees to deal with the various aspects of post-war reconstruction. In March, 1943, this machinery was overhauled and a Reconstruction Committee of the Executive Council, with the Viceroy as President and Sir J. P. Srivastava as Deputy President, was set up, together with a number of Policy Committees corresponding to the earlier reconstruction Committees. In addition to the Policy Committees, a Consultative Committee of Economists presided over by the Commerce Member, was also framed, to deal with the economic aspects of reconstruction. All this resulted in a large amount of preparatory work being completed, including the collection of data so essential for any co-ordinated planning. Most of the Provincial and State Governments also constituted reconstruction committees of their own on the lines of the Central Committee.

Reconstruction Committees set up by Government of India.

The first Report of the Reconstruction Committee of Council was published in March, 1944. It described the progress which had been made in reconstruction planning at the Centre up to 1st February, 1944 and indicated the lines on which the Policy Committees were working. The Second Report appeared a few months later. It outlined the post-war development policy in respect of certain main subjects such as reconstruction finance, re-settlement and re-employment of ex-servicemen, employment, trade and commerce, industrial development, roads, transport, irrigation, agriculture, education and so forth. A few specific studies through the different departments of the Government were also published.

In July, 1944, the Government of India created a new Department of Planning and Development with Sir Ardeshir Dalal, one of the signatories to the Bombay Plan, as Member-in-charge. The new Department of the Government of India issued a statement on the Industrial Policy of the Government on the 21st April, 1945.

New planning department under Sir A. Dalal.



Provinces
asked to
prepare
plans.

Meantime, in May, 1944,¹ the Government of India had issued instructions to all Provincial Governments to prepare their own plans of post-war development, and in October of the same year, more specific directions were issued. A copy of a plan already prepared by the Bombay Government was sent to the Provincial Governments as a model. They also urged that special priority should be given to schemes for training of personnel at home and abroad and for the settlement of ex-servicemen. All the provinces prepared plans in keeping with the direction of the Centre.

Private
Plans:
Bombay
Plan

People's
Plan.

Gandhian
Plan.

Sir
Visvesvaraya
Plans.

Planning during the war was not, however, confined to Government Departments alone. The Bombay Plan, drafted by a group of eight economists and industrialists including Sir Prushotamdas Thakurdas, Mr. J. R. D. Tata, Mr. G. D. Birla, Sir Ardeshir Dalal, Sir Shri Ram and Dr. John Mathai appeared in January, 1944. Among other non-official plans, mention may be made of the People's Plan drafted by Mr. M. N. Roy on behalf of the Post-war Reconstruction Committee of the Indian Federation of Labour and of the Gandhian Plan drafted by Mr. S. N. Agarwal, Principal of the Wardha College of Commerce. Sir M. Visvesvaraya, whose pioneer work on planning had first appeared in 1934, published a brochure on Reconstruction in Post-war India in September, 1944, in which he gave his general approval to the proposals contained in the Bombay Plan.

Objectives of
Planning.

The main objectives of planning must be related to the genius of the people as well as the stage of economic development already attained by them. In a country like India the main objective has to be the raising of the general standard of the people. In fully developed countries like the U.K., the U.S.A., etc., objectives of planning are stated to be the maintenance of full employment, or the raising of effective demand to control trade cycles or other objectives of a similar import. According to the National Planning Committee of India, planning had not only to be considered from the point of view of Economics and the raising of the standard of living but it

¹ It became popularly known as the Bombay Plan because most of the signatories belonged to Bombay.



must also include cultural and spiritual values and the human side of life.

The National Planning Committee recommended a doubling or trebling of the standard of living and of production during the following ten years. According to the authors of the Bombay Plan, the ultimate object of planning in India should be an increase in the volume of India's economic production to the fullest extent to which its natural resources would allow. For an immediate objective they recommended a doubling of the *per capita* income within a period of fifteen years of the inauguration of the Plan.

The Bombay Plan laid down certain minimum requirements which should include, besides the physical necessities of life like food, clothing and shelter, also some provision for medical relief and sanitation as well as for literacy and education. The aggregate amount of income required to meet the barest requirements of human life, according to the Bombay Plan, would be Rs. 2,900 crores.

The Gandhian Plan of Mr. Agarwal laid down a basic standard of life for the Indian people to which their present material and cultural level should be raised within a period of ten years. This Plan aimed at a four-fold increase in the *per capita* income in order to secure all the basic necessities of life and a minimum standard of comfort.

Adequate finance is an indispensable condition of the success of all planning. The limit of finance, however, is the total resources of the country, and subject to this limit, it is possible, given the requisite determination and technical skill, to find the wherewithal for the support of any plan. Financing of plans.

A suitable machinery for carrying out the plans is no less important. The type of machinery needed depends upon the functions which are to be discharged. In a federal constitution, it may well happen that a considerable portion of the field of development falls outside the scope of the Central Government and the field of provincial responsibility would be in such a case comparatively more important. The part that can be played by the Centre in such a situation, though limited, can still be large and the Central Government can exercise Machinery for carrying out the plans.



Demarcation
of functions
between
centre and
provinces.

considerable influence on the economic progress of the country as a whole by organising research, and also through its control of banking and credit, tariffs, foreign trade, railway freight, etc. The Advisory Planning Board appointed by the Government of India in October, 1946 recommended that there should be a demarcation of the limits of the functions of the Centre and the Provinces.

Planning
Commission
recom-
mended.

For the effective discharge of the functions entrusted to the Centre, the Board recommended the setting up of a single, compact authoritative but non-political Commission consisting of not less than three and not more than five members, with all the necessary secretarial facilities, which should be responsible directly to the Cabinet or to a committee of the Cabinet.

From the nature of the functions assigned to the Central Planning Commission it was evident that their decisions were to be mainly advisory and final decisions would rest with the Government.

Consultative
Committee.

The Board also recommended that, in addition to the Planning Commission, there should be a Consultative Body of 25 to 30 members which should meet half-yearly, or quarterly, if thought necessary. Besides members of the Commission, the Consultative Committee should consist of representatives of the Provinces, and the States, and also of Agriculture, Industry, Commerce, Labour, Science and other interests. The Planning Commission would lay before it its progress reports, and matters requiring co-operative action by voluntary agreement would be conveniently discussed by this body. It would be open to it also to initiate discussion on any subject and to make specific recommendations for consideration by the Planning Commission.

Costs of
Plans.

We may now examine some of the plans which have been formulated in recent years for the economic development of India. These plans may be divided into three categories according to their authorship, *viz.*, (a) Provincial Plans, that is, those prepared by Provincial Governments, (b) Central Plans, that is, those prepared by the Departments of the Central Government and (c) Private Plans, that is, those prepared by private individuals and bodies.



The total cost of the Provincial Plans was estimated at Rs. 776 crores.¹

We may now briefly describe the main proposals for development under the Provincial Plans.

(i) Irrigation, Electric Power and Flood Control: In this sector, the proposals include, besides a few major irrigation projects, also a number of regional projects for development of multipurpose waterways which traverse provincial, state and even national boundaries, and therefore require for their execution the agreement of two or more administrations.

Main
Features
of the
Provincial
Plans.

Province.	Total Expendi- ture	Expected grants from Centre.	Provincial Funds.	Balances to be met by loans.	Estimated portion of loans which are to be un- productive.
	(Rs. crores)	(Rs. crores)	(Rs. crores)	(Rs. crores)	(Rs. crores)
Madras	129	42	47.5	39.55	24.5
Bombay	53	17.75	25	10.25	5.25
Bengal	159	69	9.7	80.3	43
U. P.	108	47	31.5	29.5	6
Punjab	116	24	34	58	6
Bihar.	76	31	12	33	22
C. P.	31	14	13	4	2
Assam	26.5	11.5	3	12	5
Orissa	34	10	2.24	20.76	8.41
Sind	44	3.9	15	25.1	18
Total	776.5	270.15	192.94	312.41	140.11

It is estimated that if all the major irrigation projects, including the multi-purpose projects, are successfully carried out, the increase in irrigation from Government sources would be of the order of 23½ million acres. This would mean nearly doubling the area irrigated from Government sources. The total expenditure estimated for the development of electrical energy is Rs. 66½ crores.

(ii) Roads: Roads fall under two main heads, viz., (1) National Highways and (2) Provincial, Village and District Roads. The planned expenditure on National Highways amounts to about Rs. 36 crores, to be met entirely by the Central Government. As regards the Provincial, District and Village Roads, the entire responsibility for their development will be with the provinces. The combined expenditure with regard to these roads is estimated to be Rs. 14.1 crores.

¹ The assumed sources of the total finance (as well as the relative importance of these sources) are indicated in the Table.

(iii) Agriculture: The Agricultural target for the territory formerly known as British India was to be the annual production of an additional 3 million tons of food grains.

It is worth noticing that about Rs. 123 crores total expenditure under all the Provincial Plans was to be allotted to agriculture and kindred subjects, such as animal husbandry, forestry, fishery, and so forth.

(iv) Industries: The development of major industries being the responsibility of the Central Government, provincial schemes were concentrated mainly on provisions for technical training and the development of cottage and small-scale industries. The total outlay by all the Provinces on such schemes would be about Rs. 20.6 crores.

(v) Education: For the development of education the Provinces proposes to spend approximately Rs. 93 crores. Provincial development schemes were based mainly on the Sargent Report with adjustments to suit local conditions.

(vi) Medical and Public Health: The amount to be spent under this head was Rs. 99 crores.

Central
Plans.

The total capital expenditure to be undertaken by the Centre in respect of subjects falling within their sphere of responsibility was approximately Rs. 519 crores.

The Central Plans were those prepared by the different departments of the Central Government.

Private
Plans.

Of the private plans, the total financial requirements of the Bombay Plan (including capital expenditure as well as recurring expenditure) were estimated roughly at Rs. 10,000 crores, made up as follows:

	(Rs. crores)		
Industry	4,480
Agriculture	1,240
Communications	940
Education	490
Health	450
Housing	2,200
Miscellaneous	200
Total	10,000

The sources of finance for the implementation of the Plan were indicated as follows:

External Finance:		(Rs. crores)
Hoarded wealth, mainly gold	...	300
Sterling Securities	...	1,000
Balance of Trade ...	...	600
Foreign Borrowing	...	700
Total		2,600
Internal Finance:		
Savings	...	4,000
Created Money	...	3,400
Total		7,400
Grand total		10,000

The chief merit of this Plan was its boldness. But all the measures proposed for raising funds are wholly impracticable. The proposal to create money, that is to say, to print more notes, is a most dangerous one, particularly at a time when the country is groaning under an extremely heavy load of high prices.

The setting up of a National Planning Commission for India under the Chairmanship of the Prime Minister, to co-ordinate Central and State Plans, lay down priorities and fix targets, was announced by Dr. John Mathai on February 28, 1950 while delivering his Budget speech for 1950-51. Dr. Mathai pointed out that the Central and Provincial plans drawn up at the end of the Second World War had become out of date on account of the division of the country, and the available resources were unlikely to be of the magnitude contemplated earlier. It had, therefore, become necessary to reconsider the position afresh on the basis of the changes in the economic condition of the country, the resources likely to be available and the situation created by the integration of the former Indian States with the rest of the country. The Commission met for the first time on March 28, 1950, and has since been engaged in drafting a Five-year Development Plan for India, which is to be completed in two stages, the first consisting of two years beginning

with 1951-52 and the second covering the last three years. The Commission has also been studying problems relating to controls and reviewing development programmes of the Central and State Governments to determine priorities in the public sector.

✓ six divisions.

Method of working.

The work of the Commission is organised in six divisions which are as follows: (i) resources and economic survey, (ii) finance, (iii) food and agriculture, (iv) industry, trade and communications, (v) development of natural resources and (vi) employment and social services. Members of the Commission work as a body, but for the sake of convenience, there is a division of functions among them, and each member is in special charge of a division and is responsible for directing the study of the special problems relating to that division. Thus the economic division of the Commission is charged with preparing an estimate of the internal resources of the country and it studies methods of financing planned development and the related problem of capital formation. The food and agriculture division studies various aspects of the problem of increasing agricultural production, including the production of food cereals, extension of agricultural organisation, and the problem of surplus agricultural labour. In the field of industries, studies of individual industries are now in progress to find out the extent to which actual production falls short of the installed capacity, the reasons for the gaps which may exist, the steps which are necessary to ensure increased output, and the basis on which development programmes may be drawn up for different industries. The natural resources division is concerned with power and irrigation projects, coal and minerals, oil, electricity, scientific and technical manpower and scientific research. The employment and social services division studies subjects, such as labour, health, education, rehabilitation, and public co-operation. It also studies problems relating to industrial housing, social education and problems of labour productivity.

✓ The Commission works in close consultation with Central and State Governments. It has established a procedure for consultation and for co-ordination of its work with the various Ministries of the Government of India and for consultation



with the States. All State Governments are required to send to the Commission detailed reviews of their development schemes. After completing the study of development programmes of Central and State Governments, and the resources for development available to them, the Commission will proceed to examine priorities in the public sector and make necessary recommendations to the Government. They will also prepare a scheme of priorities for the private sector. The functions of the Commission are essentially advisory, and the question of implementation of the recommendations would rest entirely with the Central Government.

The Commission has also set up a consultative machinery to assist it in the discharge of its functions. This is in the form of an Advisory Board which consists of representatives in the field of industry, commerce and labour and in the socio-economic and technological fields.

To secure the association of officials and non-officials who have special knowledge and experience in subjects in which the Planning Commission is interested, panels of experts are being constituted for obtaining their constant help and advice. The main headings under which panels are being set up are: Industry ; Trade and Communications ; Food and Agriculture ; Development of Natural Resources ; and Employment and Social Services.

Panels of Experts to help Planning Commission.

An *interim* report was submitted by the Commission on the 25th of October, 1950, dealing with irrigation and river-valley projects, an account of which has been given in a previous Chapter of this book.

As there is little likelihood of substantial budget surpluses in the near future, it is too early to express any opinion on the work of the Commission. But the question of funds does not seem to have received the attention it needed. Additional taxation, internal loans, external borrowing and resort to the printing press are all matters involving great—almost insuperable—difficulties at the present moment. If adequate finance can be secured, the Commission's labours will bear fruit and the country will reap much benefit. But if finance be unavailable, the Commission's Plan will be a mere addition to the many paper-schemes which have already been evolved and



the cost of the undertaking will be regarded as sheer waste of money.

Opposition to
Planning by
eminent
economists.

Plans are now being adopted not only in totalitarian countries, but also in democracies. There are, however, some sincere anti-planners like Prof. Hayek or Prof. Jewkes who point out many serious objections to planning. The three minimum preconditions of planning are that the civil service must be reasonably efficient and honest, citizens should be reasonably ready to pay their taxes and, lastly, the conception of respecting the regulations laid down by the Government must be reasonably widespread. According to Barbara Ward, these pre-conditions are absent in many countries. The suitability of large-scale planning on a governmental basis in India would depend upon the extent to which the three preconditions are fulfilled in this country.

Hayek's
view

It is urged by some economists that, while planning may be good for autocratic countries, it is not possible to plan at all in a democratic way. According to Professor Hayek planning is the road to serfdom. On this aspect of the question, opinion is divided. In any case, free nations cannot use some of the instruments of planning available to the totalitarian countries. Compulsion, which is essential for giving effect to planning measures, has only a limited scope in democratic countries.

Opinion of
the United
Nation
Committee.

The bulk of modern opinion is, however, in favour of planning even in democratic countries, and it is urged that it is possible to plan in such a manner as to preserve the essentials of democratic institutions and the democratic way of life. In a recent publication of the United Nations, a group of experts, who made a special study of this aspect of the question, record their views as follows: "In countries in which there is a considerable degree of central direction of the economic system, the mechanism of planning and control can be used to ensure that all available labour is in fact employed. In countries which rely primarily on the system of private enterprise, concern is sometimes expressed lest a policy of full employment may entail the introduction of controls of a type considered foreign to their economic institutions. In our view, however, the steps required to promote full employment in free enterprise economics are fully consistent



with the institutions of such countries.”¹ (It is admitted, however, that economics which make widespread use of central planning and control are obviously in a better position to undertake such measures as the direct stabilisation of investment than private enterprise economics relying on a free price mechanism. Nevertheless, with properly thought-out methods and sufficient preparation, private enterprise economics are enabled to accomplish far more in this direction than was thought feasible in the past. The measures advocated fall into a few groups—fiscal policy through the budget, control of private investment, the stimulation of consumption, compliance with international measures, and the stabilisation of the incomes of primary producers.

When planning is not restricted to fiscal measures, but involves an elaborate system of controls, including physical control of raw materials, it is urged that it is beset with special difficulties and gives rise to a host of abuses. Physical controls are cumbersome and difficult to manage and they entail delays in production and distribution resulting in waste of national product.)

Dr. Mathai who, as Finance Minister had announced the formation of the Planning Commission in the course of his budget speech, resigned three months later over the issue of the Commission. He said that the Commission was “not merely ill-timed, but in its working and general set-up ill-conceived.” In his view the Planning Commission was unnecessary, as there were already on the shelves of the various Ministries of the Government plans costing nearly Rs. 3,000 crores which have been held up for lack of finance, materials and technical personnel. “What is required at present”, he said, “is first to draw up a strict order of priority for the existing plans on the available real resources of the country, and, secondly, to work out the existing plans in detail at the technical end because no blue-print can be put into execution until the technical issues have been worked out.” The Planning Commission of the kind set up in India was “hardly

Dr. Mathai's
view.

¹ *National and International Measures of Full Employment*, United Nations publication.



qualified for the work". The ministries concerned were in a better position, he said, to determine the order of priority.

Dr. Mathai also criticised strongly the methods of working of the Planning Commission. In this connection he said: "The main reason urged for setting up a Planning Commission was that the Government were preoccupied with day-to-day administration and therefore had little leisure for thinking and planning ahead. But, in the way things were working out to-day, the Planning Commission were asking for a voice in the discussion of current economic problems and were, in fact, with the approval of the Prime Minister, associated with the Cabinet discussions. Dr. Mathai also took exception to the composition of the Commission on the ground that it was undesirable that "a Cabinet Minister holding the key portfolio of finance, should be an ordinary member of the Commission of which the working head, namely, the Deputy Chairman is a paid employee of the Government."¹ "Such an arrangement", he said, "was bound to weaken the authority of the Finance Minister and also of the Cabinet, because under this arrangement, it will be found that the Cabinet will in due course be reduced to practically a registering body".

¹ He added: "The Commission have at present hardly any staff; nor have they as a Commission carried out any investigations, and such opinion as they can contribute to these discussions can only be the preconceived views of the members of the Commission. The result is, first, the Commission tends to become a parallel cabinet, and, secondly, it increases the area of argumentation and discussion inside the Government and makes for delay in arriving at decisions on immediate problems".

APPENDIX A

INDIAN CURRENCY

1 Pie	= 1/12 anna.
4 Pice	= 1 anna.
1 Rupee (16 annas)	= 1s. 6d. or 21 cents.
Rs. 100	= £7-9-6 or 21 dollars
Rs. 1,000	= £74-14-10 or 210 dollars
Rs. 1,00,000 (one lakh)	= £7,473-19-2 or 21,000 dollars
Rs. 1,00,00,000 (one crore)	= £747,395-16-8 or 2,100,000 dollars.

APPENDIX B

BALANCE OF TRADE

	1938-39	1948-49	1949-50
	(In Lakhs of Rupees)		
MERCHANDISE :			
Imports ...	1,55,55	5,42,92	5,60,07
Total Exports ...	1,69,83	4,23,32	4,72,90
Balance ...	+14,28	-1,19,60	-87,17
TREASURE :			
Balance of Transactions in Treasure ...	+11,38	-84	-4
TOTAL VISIBLE BALANCE OF TRADE ...	+25,65	-1,20,43	-87,21

Reserve Bank of India Bulletin, September, 1950.

APPENDIX C

DIRECTION OF INDIA'S SEA BORNE TRADE

(Private and Government)

			1938-39	1948-49	1949-50
			(In Lakhs of Rupees)		
<i>Commonwealth Countries :</i>					
CEYLON	...	...	Imports(-)	1,29	2,61
			Exports(+)	5,36	12,31
			Balance	4,07	9,70
UNITED KINGDOM	...	...	Imports(-)	48,72	1,52,36
			Exports(+)	58,37	98,28
			Balance	9,64	54,08
CANADA	...	...	Imports(-)	96	8,23
			Exports(+)	2,14	8,39
			Balance	1,18	16
AUSTRALIA	...	...	Imports(-)	2,45	22,57
			Exports(+)	3,00	20,65
			Balance	55	-1,93
TOTAL	...	...	Imports(-)	91,10	2,49,19
			Exports(+)	90,83	2,18,48
			Balance	27	30,71
<i>Foreign Countries :</i>					
BURMA	...	...	Imports(-)	24,41	19,25
			Exports(+)	11,50	10,56
			Balance	12,91	8,69
U. S. A.	...	...	Imports(-)	9,98	1,06,73
			Exports(+)	14,29	70,68
			Balance	4,30	36,05
EGYPT	...	...	Imports(-)	2,21	31,89
			Exports(+)	1,26	6,72
			Balance	95	25,17
IRAN	...	...	Imports(-)	3,57	20,46
			Exports(+)	85	3,14
			Balance	2,72	17,32
CHINA	...	...	Imports(-)	1,73	1,20
			Exports(+)	2,50	5,69
			Balance	76	4,49
TOTAL	...	...	Imports(-)	64,45	2,78,07
			Exports(+)	79,00	2,04,84
			Balance	14,55	73,23
<i>All Countries :</i>					
GRAND TOTAL	...	...	Imports(-)	1,55,55	5,42,92
			Exports(+)	1,69,83	4,23,32
			Balance	14,28	1,19,60

APPENDIX D

INDEX-NUMBER OF EXPORTS (1938-39=100)

CLASS AND ITEM.	Quantity Index.		Price Index.	
	1948-49	1949-50	1948-49	1949-50
<i>Class I. Food, Drink & Tobacco</i>	95.7	105.4	253.9	299.3
1. Fish	71.1	89.5	295.5	299.3
2. Fruits and Vegetables ...	96.9	99.8	286.6	335.4
3. Grains, Pulse and Flour ...	0.2	0.2	271.8	352.8
4. Spices	110.5	154.9	527.8	1408.2
5. Tea	116.7	126.4	234.1	244.6
6. Tobacco	88.0	108.5	340.9	361.0
<i>Class II. Raw Materials</i> ...	30.6	32.6	414.2	407.9
7. Non-metallic Products ...	205.9	186.5	244.2	311.1
8. Gums, Resins and Lac ...	121.3	112.2	310.0	376.1
9. Hides and Skins ...	41.2	48.3	353.5	365.3
10. Metallic Ores	68.3	178.1	264.2	296.5
11. Oils	223.8	158.1	493.6	495.6
12. Seeds	9.5	19.0	495.0	518.0
13. Cotton Raw and Waste ...	21.3	20.1	364.4	390.5
14. Jute Raw	30.8	20.1	578.8	586.0
15. Wool Raw	15.7	49.5	232.8	251.4
16. Other Textiles	81.0	40.5	572.8	567.2
17. Miscellaneous	56.3	78.2	347.7	282.0
<i>Class III. Manufactures</i> ...	106.4	127.8	507.2	451.9
18. Cotton yarn and Manufac- tures	140.7	299.7	390.2	335.5
19. Jute yarn and Manufac- tures	96.6	79.0	571.7	599.0
20. Woollen Manufactures ...	99.3	125.5	354.9	336.1
21. Miscellaneous	120.4	178.6	344.3	299.5
GENERAL	67.1	76.2	394.8	389.1

APPENDIX E

INDEX-NUMBER OF IMPORTS (1938-39=100)

CLASS AND ITEM.	Quantity Index.		Price Index.	
	1948-49	1949-50	1948-49	1949-50
<i>Class I. Food, drink & Tobacco</i>	145.9	130.2	465.5	430.7
1. Fruits and Vegetables ...	138.7	130.8	332.2	397.2
2. Grains, Pulse and flour ...	155.4	137.4	574.0	519.3
3. Provisions and Oil-man's Stores ...	146.9	191.6	193.3	161.6
4. Spices ...	110.6	54.9	163.1	247.0
5. Tobacco ...	125.4	67.1	276.4	327.6
<i>Class II. Raw Materials</i> ...	142.8	165.1	294.1	304.8
6. Non-metallic Products ...	90.5	116.4	273.3	276.2
7. Oils ...	128.0	163.5	187.9	231.7
8. Cotton ...	167.8	164.7	449.9	451.5
9. Wool ...	198.9	161.3	256.6	302.9
10. Miscellaneous ...	156.7	216.5	271.9	239.4
<i>Class III. Manufactured Articles</i>	105.0	93.5	312.5	293.8
11. Chemicals and Drugs ...	206.7	85.2	313.8	210.2
12. Cutlery and Hardware ...	101.2	108.6	179.0	310.4
13. Dyes and Colours ...	105.6	81.5	356.6	336.6
14. Electrical Goods ...	120.2	147.9	242.2	284.5
15. Machinery of all kinds ...	338.6	543.1	177.5	156.7
16. Metals: Iron and Steel ...	58.4	77.8	307.6	266.0
17. Metals: other than Iron and Steel ...	196.9	166.7	262.7	267.5
18. Paper, Pasteboard, etc. ...	124.4	74.5	340.3	353.2
19. Vehicles ...	201.5	109.1	262.9	293.1
20. Cotton yarns and Mfg. ...	21.3	23.0	623.6	617.5
21. Woollen ...	92.7	93.4	352.5	291.2
22. Other Textiles ...	94.5	105.3	563.0	515.6
23. Miscellaneous ...	81.0	97.3	255.7	211.5
GENERAL ...	124.5	121.3	345.7	329.8

APPENDIX F

RESERVE BANK OF INDIA

(I) ISSUE DEPARTMENT (In lakhs of Rupees)

	1938-39	1948-49	1949-50
(1) Notes in Circulation ...	182,36	1,231,84	1,128,94
(2) Notes held in Banking Department ...	28,28	22,02	24,00
(3) Total Notes issued ...	210,64	1,253,86	1,152,94
(4) Gold Coin and Bullion ...	44,42	42,49	40,02
(5) Foreign Securities ...	66,95	907,47	647,04
(6) Rupee Coin ...	67,11	42,96	50,53
(7) Rupee Securities ...	32,16	265,62	415,36
(8) (4+5) as percentage of 3 ...	52.91	75.43	59.59

(II) BANKING DEPARTMENT (In lakhs of Rupees)

	1938-39	1948-49	1949-50
(1) Deposits:			
(a) Central Government ...	14,90	222,17	141,19
(b) Other Governments ...	...	16,62	23,12
(c) Banks ...	16,19	80,53	67,00
(d) Others ...	75	56,52	64,39
(e) Total ...	31,84	393,72	295,69
(2) Other Liabilities ...	1,28	15,33	15,76
(3) Total Liabilities or Assets ...	43,12	419,05	321,45
(4) Notes and Coins ...	28,38	22,12	24,12
(5) Balances held Abroad ...	4,21	307,78	180,91
(6) Loans and Advances to Governments ...	1,72	1,71	3,35
(7) Other Loans and Advances ...	2	3,34	8,39
(8) Bills purchased and discounted ...	1,53	4,28	4,30
(9) Investments ...	6,36	75,65	96,04
(10) Other Assets ...	90	4,14	4,34

Reserve Bank of India Bulletin, September, 1950.

APPENDIX G

STERLING TRANSACTIONS OF THE RESERVE BANK OF INDIA

		1948-49	1949-50
PURCHASES	1. £ thousands ...	30,030	200,268
	2. Rs. Lakhs ...	4,004	26,702
	3. Average Rate Sh. d.	1-6	1-6
SALES	4. £ thousands ...	82,688	60,720
	5. Rs. Lakhs ...	11,035	8,104
	6. Average Rate Sh. d.	1-5 63/64	1-5 63/64
	7. £ thousands ...	- 52,658	+ 139,548
NET $\frac{\text{Purchases}(+)}{\text{Sales}(-)}$	8. Rs. Lakhs ...	- 7,031	+ 18,598

APPENDIX H

The Gold Reserve of Reserve Bank of India was as follows:
(In million Ounces)

1938-39	...	...	...	8
1948-49	...	...	...	7
1949-50	...	...	...	7

APPENDIX I

SCHEDULED BANKS

(In lakhs of Rupees)

	1938-39	1948-49	1949-50
1. Number of Reporting Banks ...	51	94	94
<i>Liabilities in India—</i>			
2. Demand ...	123,81	674,56	597,79
3. Time ...	103,30	303,88	272,59
4. Total (2+3) ...	227,11	978,44	870,38
5. Cash in India (notes and coin) ...	6,38	37,51	34,47
6. Balances with Reserve Bank ...	15,88	79,46	65,85
7. (5+6) as percentage of 4 ...	9.80	11.95	11.53
8. Advances in India ...	111,34	424,85	426,74
9. Bills discounted in India ...	4,60	16,44	15,35
10. (8+9) as percentage of 4 ...	53.15	45.10	50.79

APPENDIX J

GOVERNMENT OF INDIA TREASURY BILLS

(In thousands of Rupees)

	1938-39	1948-49	1949-50
1. Amount offered	83,50,00	63,00,00	44,00,00
2. Amount tendered	128,90,25	75,71,25	61,39,25
3. Amount sold by tender ...	82,13,25	46,00,50	38,75,50
4. Average rate of discount per cent per annum	Rs. 1. a. 10. p. 0	R. 0. a. 7. p. 11	Rs. 0. a. 8. p. 3
5. Sold in favour of Reserve Bank ...	100,11,75	1,117,85,00	1,381,11,75
6. Total Amount outstanding ...	46,30,00	350,46,50	341,86,25

Reserve Bank of India Bulletin, September, 1950.

APPENDIX K

STATE GOVERNMENT TREASURY BILLS

	1938-39	1948-49	1949-50
1. Issuing Government ...	C, M, A, U ¹	M, U	M, U
2. Amount offered ...	5,70,00	3,00,00	13,50,00
3. Amount tendered ...	7,17,00	1,54,00	15,50,00
4. Amount sold ...	5,70,00	1,54,00	13,50,00
5. Average rate of discount per cent. per annum ...	Rs. A. P. 1 13 0	Rs. A. P. 0 12 0	Rs. A. P. 0 9 6
6. Amount outstanding with the public ...	1,50,00	...	...

¹ C—Madhya Pradesh ; M—Madras ; A—Assam ; U—Uttar Pradesh.

APPENDIX L

INDUSTRIAL DISPUTES AND ABSENTEEISM

		1948	1949	June '50
1. INDUSTRIAL DISPUTES:				
Number of—				
(a) Disputes	...	1,259	920	79
(b) Workers involved	} All industries ...	1,059	686	44
(c) Man-days lost		7,837	6,601	269
(000's)		2,402	2,551	86
(d) Man-days lost	} Cotton ...	1,210	563	22
(000's).		8	28	2
		72	185	1
		12	54	...
		187	262	...
2. ABSENTEEISM:				
(a) Percentage of man-	} Iron & Steel ...	14.3	13.5	17.2
shifts lost to man-		10.9	10.1	12.8
shifts, scheduled		10.9	10.8	12.1
to work.	} Cement ...			
	} Match ...			

Reserve Bank of India Bulletin, October, 1950.

APPENDIX M

SHIPPING—FOREIGN TRADE

NATIONALITY OF VESSELS:				1938-39	1948-49	1949-50
1. British—						
(a) Entered	.. {	Vessels	..	2,024	1,348	1,268
		Tons	..	6,374,352	5,148,797	5,168,948
(b) Cleared	.. {	Vessels	..	2,093	1,152	1,015
		Tons	..	6,552,994	4,253,371	3,964,505
2. Indian—						
(a) Entered	.. {	Vessels	..	161	350	349
		Tons	..	295,760	178,640	238,808
(b) Cleared	.. {	Vessels	..	259	401	468
		Tons	..	283,705	205,088	337,750
3. Foreign—						
(a) Entered	.. {	Vessels	..	602	705	731
		Tons	..	2,716,270	2,735,447	2,889,526
(b) Cleared	.. {	Vessels	..	654	572	619
		Tons	..	2,747,751	2,194,523	2,331,728
4. Total—						
(a) Entered	.. {	Vessels	..	3,403	2,832	2,674
		Tons	..	9,431,269	8,100,108	8,327,784
(b) Cleared	.. {	Vessels	..	4,037	2,926	2,782
		Tons	..	9,658,874	6,723,454	6,694,719

Reserve Bank of India Bulletin, September, 1950.

APPENDIX N

SHORT-TERM MONEY RATES

(In per cent per annum)

			1948-49	1949-50			
Government of India Treasury Bill Rate	..	As. 7 p. 11	As. 8 p. 3				
CALL MONEY RATE	..						
	{	Bombay	..	9/16	5/8		
		Calcutta	..	1/2	1/2		
Madras		..	3/4	1-1/8			
DEPOSIT RATE	{	3 months	{	Bombay	..	1-1/8	1-11/32
		{	Calcutta	..	1/2	1/2	
			Madras	..	1/4	1/2	
	{		6 months	{	Bombay	..	1-7/16	1-21/32
		{	Calcutta	..	3/4	3/4	
			Madras	..	1/2	3/4	

Reserve Bank of India Rate 3 per cent. from 28th November, 1935.
Imperial Bank of India Hundi Rate 3 per cent. from 24th January, 1941 to 18th January, 1949 and 3½ per cent. thereafter.

APPENDIX O

GOVERNMENT OF INDIA SECURITY PRICES

			1948-49	1949-50
3 per cent. Loan, 1951-54	{ Price	..	Rs. 102 as. 0	Rs. 100 as. 8
	{ Yield	..	2.30%	2.21%
3 per cent. Loan, 1953-55	{ Price	..	Rs. 102 as. 4	Rs. 101 as. 12
	{ Yield	..	2.50%	2.51%
3 per cent Victory Loan, 1957.	{ Price	..	Rs. 101 as. 12	Rs. 101 as. 7
	{ Yield	..	2.78%	2.80%
3 per cent. Loan, 1963-65	{ Price	..	Rs. 100 as. 9	Rs. 100 as. 5
	{ Yield	..	2.94%	2.97%
3 per cent. Funding Loan, 1966-68	{ Price	..	Rs. 100 as. 0	Rs. 100 as. 2
	{ Yield	..	3.00%	2.99%
3 per cent. Paper	{ Price	..	Rs. 99 as. 0	Rs. 97 as. 12
	{ Yield	..	3.03%	3.07%

APPENDIX P

POSTAL SAVINGS

(In lakhs of Rupees)

			1938-39	1948-49	1949-50
Cash Certificates	{ Receipts ..	14,71			1
	{ Outstandings ..	59,57		- 7,50	- 11,33
Defence Savings Certificates.	{ Outstandings ..	...		- 76	- 102
National Savings Certificates.	{ Receipts ..	...		22,68	23,72
	{ Outstandings ..			25,01	40,46
Savings Bank Deposits	{ Receipts ..	44,61		85,02	86,01
	{ Outstandings ..	81,88		30,30	42,88
Defence Savings Bank Deposits.	{ Outstandings ..	...		- 4,07	- 4,47

Reserve Bank of India Bulletin, September, 1950.

APPENDIX Q

RAILWAY TRAFFIC

		1948-49 (000's)	1949-50 (000's)
Number of wagons loaded:			
1. Coal and coke for the public and for foreign railways ...	...	2,115	2,317
2. Grains and pulses ...	...	780	808
3. Oil seeds ...	...	172	179
4. Cotton ...	...	142	140
5. Total ...	...	9,089	10,185

Reserve Bank of India Bulletin, October, 1950.

APPENDIX R

INDEX NUMBERS OF INDUSTRIAL PRODUCTION

			1947	1948	1949
1. Cotton Textiles	...	...	96.2	110.5	99.9
2. Cotton Yarn	...	...	94.8	105.9	99.4
3. Woollen Manufactures	...	...	88.9	74.1	77.8
4. Jute Manufactures	...	...	96.6	100.2	86.9
5. Coal	...	...	103.9	103.2	108.8
6. Steel	...	...	97.1	97.1	105.5
7. Non-ferrous metals	...	...	98.9	105.2	109.3
8. Cement	...	...	93.9	100.7	136.3
9. Dry Cells	...	...	99.9	140.8	173.0
10. Sulphuric Acid	...	...	100.0	133.3	165.8
11. Sugar	...	...	97.6	116.5	108.5
12. Paper and Paper Board	...	...	87.8	94.6	97.4
13. Matches	...	...	113.0	129.4	127.4
14. Total	...	...	98.8	110.8	108.3

APPENDIX S

INDEX NUMBERS OF WHOLESALE PRICES AND COST OF LIVING IN SELECTED COUNTRIES

(Base 1937 = 100)

Year & month	United States		United Kingdom		Canada		Australia		France	
	P	C	P	C	P	C	P*	C	P*	C†
1938 ..	91	98	93	101	93	101	100	103	112	116
1939 ..	89	97	95	104	89	100	100	105	118	125
1940 ..	91	98	126	121	98	104	110	110	156	149
1941 ..	101	102	140	133	106	110	117	115	192	173
1942 ..	114	113	147	143	113	116	132	125	226	202
1943 ..	119	120	150	147	118	117	138	129	263	259
1944 ..	121	122	153	151	121	117	139	129	298	329
1945 ..	123	125	155	152	122	118	140	129	421	454
1946 ..	140	136	161	154	128	122	141	131	728	745
1947 ..	176	155	176	163	153	134	150	136	1,110	1,190
1948 ..	191	167	202	174	181	153	170	148	1,920	1,890
1949 ..	180	165	212	179	186	159	189	162	2,150	2,110
March, 1950 } 1950 }	177	163	226	182	188	162	210	170‡	2,360	2,200

Report on Currency and Finance, 1949-50.

P = wholesale Prices ; C = Cost of living.

* Index-numbers of home-consumed goods.

‡ Retail Prices (food).

‡ Quarterly Indices.



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